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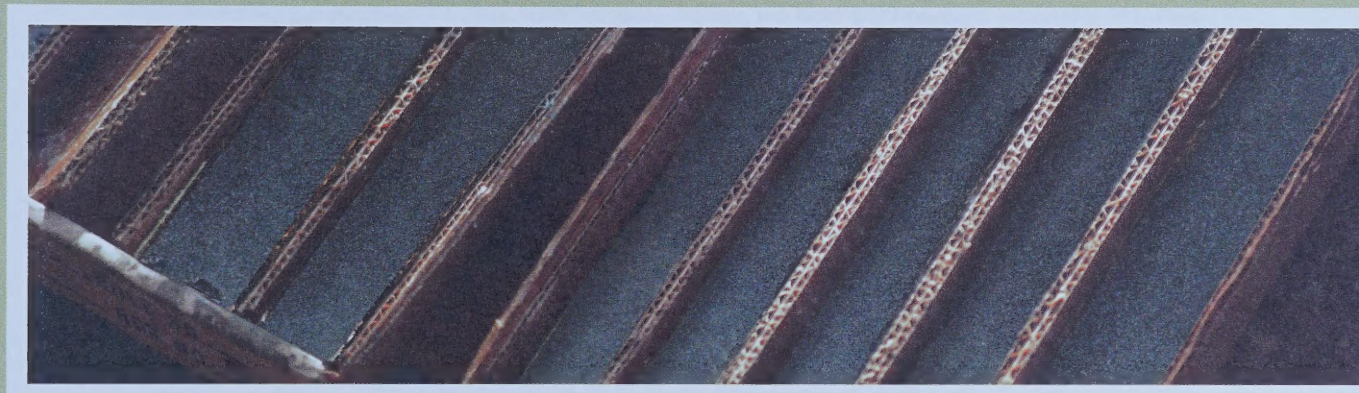
UTS ENERGY CORPORATION

FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2007



UTS

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MESSAGE TO OUR SHAREHOLDERS

We are pleased to report that in 2007 we have continued to increase UTS asset value through our development and partnership activities, resulting in a stronger company which is well financed and has a diversified portfolio of assets within the oil sands.

Progress on the Fort Hills Project has been significant, with formal project sanction now scheduled for the second half of 2008. Moreover, increasing the Fort Hills Project's initial production capacity to 140,000 barrels per day coupled with the associated cost escalation led us to reappraise our financing capabilities and requirements. In November of 2007 we closed the transaction whereby our partners Petro-Canada and Teck Cominco each earned a further five percent working interest in the Fort Hills Project. Today, we hold a 20 percent interest in the Fort Hills Project. We consider this to be an appropriate and meaningful level of participation for UTS. The value of a one percent working interest in the Fort Hills Project has grown from approximately $1.6 million, the amount we paid for purchasing the asset from TrueNorth in 2004, to $75 million today.

Our strengthened financial position has secured our immediate financial needs to fund our corporate priorities until the fourth quarter of 2009. As a result of the additional earn-in by our Fort Hills Partners and a successful $275.5 million equity offering in 2007, we have secured our share of the first $7.5 billion of obligations on the Fort Hills Project.

On the exploration side of our portfolio we completed a transaction with Teck Cominco in June of 2007, wherein Teck Cominco acquired a 50 percent interest in Lease 14 for $200 million. Completion of this transaction allowed us to fund our exploration and delineation drilling program, with the overall objective to develop and diversify our asset portfolio and deliver organic value growth for our shareholders.

We are also pleased to report that, notwithstanding these two transactions, we have grown the resource base within the company. The latest independent Best Estimate of contingent recoverable resources of de-asphalted bitumen at the Fort Hills Project is now 800 million barrels with a further 175 million barrels in Lease 14. Moreover, following the recently completed drilling program comprising over 280 additional wells on our Lease 311 Area, we fully expect to be in a position to report a contingent resource discovery at the end of 2008 It is UTS' Management's belief that based on this extensive drilling program the results will be consistent with our expectations of a sufficient number of barrels for a stand-alone project.

We have also made considerable progress over the last year with regards to the preliminary evaluation of the leases jointly owned with Teck Cominco, specifically:

- We will be releasing a Public Disclosure Document on March 25, 2008, outlining our preliminary development plans for Lease 14, now known as the Equinox Project and Lease 311 Area, together with Lease 610, now known as the Frontier Project, thereby starting the regulatory process for their respective development.

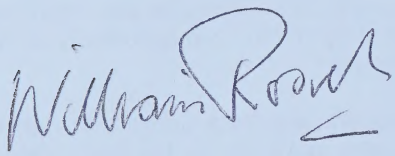
- The Equinox Project, comprising Lease 14, is a high value strategic asset of 7,147 acres west of the Athabasca River. It is proximate to three other projects, including the Fort Hills Project, providing us with a number of development options ranging from a stand-alone bitumen facility to a satellite project, to trading, selling or monetizing the asset.

- The Frontier Project, comprising the Lease 311 Area and Lease 610, includes 42,240 acres west of the Athabasca River, approximately 10 kilometres north of the Equinox Project. Based on 63 core holes drilled prior to the 2007/2008 winter season, UTS' management believes that recoverable bitumen could support an oil sands mining operation with production of 100,000 to 160,000 barrels per day of bitumen for a 50 year production life. Additional drilling during the current winter season will increase drilling density to provide a contingent resource estimate by the end of 2008.

Overall, we have created new upside opportunities and reduced project-related risk at a time of changes in the royalty structure, environmental regulations, tax policies and political and economic uncertainty. We remain committed to reduce our environmental footprint in issues related to emissions, carbon capture and water use. We have seen significant fluctuation in the stock and credit markets, and we have emerged with greater financial stability.

While we are proud of our many accomplishments over the past few years, we continue to believe our best years lie ahead. Thank you to our loyal shareholders for the ongoing support we have received and we look forward to reporting to you on our continued growth and success.

On behalf of the Board of Directors,



William Roach
President and Chief Executive Officer

Calgary, Alberta, Canada
March 12, 2008

UTS ENERGY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT MARCH 12, 2008

Management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2007. Additional information concerning UTS Energy Corporation ("UTS" or the "Company"), including its Annual Information Form, is available on SEDAR at www.sedar.com.

This report contains forward-looking statements and forward-looking information within the meaning of applicable Canadian securities law. These statements and information are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements and forward-looking information. The words "believe", "expect", "intend", "estimate", "anticipate", "project", "scheduled" and similar expressions, as well as future or conditional verbs such as "will", "should", "would", and "could" often identify forward-looking statements and forward-looking information. These statements and information are only predictions. Actual events or results may differ materially. In addition, this report may contain forward-looking statements and forward-looking information attributed to third-party industry sources. Undue reliance should not be placed on these forward-looking statements and forward-looking information, as there can be no assurance that the plans, intentions or expectation upon which they are based will occur. By their nature, forward-looking statements and forward-looking information involve numerous assumptions, known and unknown risks and uncertainties, both general and specific that contributes to the possibility that the predictions, forecasts, projections and other forward-looking statements and forward-looking information will not occur.

Specific forward-looking statements and forward-looking information contained in this report include, among others, statements regarding:

- *the expected costs to construct the Fort Hills Project or other potential projects;*
- *the timing of commencement of operations and the level of production anticipated;*
- *the operation of facilities including the Sturgeon Upgrader or any other facilities;*
- *our estimated general financial performance in future periods;*
- *our resource estimates;*
- *any estimate of present value or our future net cashflow;*
- *any expansion plans for our properties or assets;*
- *the impact of governmental controls and regulations on our operations;*
- *our competitive advantages and ability to compete successfully; and*
- *our expectations regarding the development and production potential of our properties.*

With respect to forward-looking statements and forward-looking information contained in this report, we have made assumptions regarding, among other things:

- *future crude oil, bitumen, natural gas and synthetic crude oil ("SCO") prices;*
- *our ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet our demand;*
- *the regulatory framework representing royalties, taxes and environmental matters in which we conduct our business;*
- *our ability to market production of bitumen or SCO successfully to customers;*
- *continuity between core holes;*
- *the geography of the areas in which we are exploring;*
- *the impact of increasing competition; and*
- *our ability to obtain financing on acceptable terms.*

Some of the risks that could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements and forward-looking information include:

- *the cost of construction for the Fort Hills Project, maintaining the construction schedule and planned start-up dates;*
- *difficulties encountered during the production of bitumen or SCO;*
- *costs associated with production and upgrading bitumen;*
- *the impact of competition;*
- *the need to obtain required approvals and permits from regulatory authorities;*
- *liabilities as a result of accidental damage to the environment;*
- *compliance with and liabilities under environmental laws and regulations;*
- *the uncertainty of estimates by our independent consultants with respect to our bitumen and SCO resources;*
- *the volatility of crude oil and natural gas prices and of the differential between heavy and light crude oil prices;*
- *the risks associated for exploring, for developing and producing bitumen;*
- *changes in the foreign exchange rate amount between the Canadian and the U.S. dollar;*
- *risks that our financial counterparties may not fulfill financial obligations to us;*
- *difficulties encountered in delivering SCO to commercial markets;*
- *risk that we are unable to sufficiently protect our proprietary technology or may be subject to technology infringement claims from third parties;*
- *general economic conditions in Canada and the United States;*
- *failure to obtain industry partners and other third-party consents and approvals when required;*
- *royalties payable in respect of our production;*
- *the impact of amendments to the Income Tax Act (Canada) on us;*
- *changes in or the introduction of new government regulations, in particular related to carbon dioxide ("CO_2") relating to our business; and*
- *the uncertainty of our ability to attract capital when necessary.*

The information contained in this report, including the information provided under the heading "Risk Factors" identifies additional uncertainties that could affect our performance. We urge you to carefully consider those factors and the other information contained in this report.

Our forward-looking statements and forward-looking information are expressly qualified in their entirety by this cautionary statement. Our forward-looking statements and forward-looking information are only made as of the date of this report. We undertake no obligation to update these forward-looking statements and forward-looking information to reflect new information, subsequent events or otherwise, except as required by law.

INTRODUCTION

UTS' principal focus is on the creation of shareholder value through the production and upgrading of bitumen from the oil sands deposits associated with the Fort Hills oil sands project ("Fort Hills Project") and the development of our other lands.

UTS holds a 20% interest in the Fort Hills Project through its interests in Fort Hills Energy Corporation ("FHEC") and the Fort Hills Energy Limited Partnership ("Fort Hills Partnership"). The Fort Hills Partnership consists of UTS with a 20% interest, Petro-Canada with a 60% interest and Teck Cominco Limited ("Teck Cominco") with a 20% interest. Petro-Canada Oil Sands Inc. ("PCOSI") is the contract operator for the Fort Hills Project.

Beyond the Fort Hills Project, UTS has expanded the scope of its opportunities through exploration and continued evaluation of the development potential of its other leases acquired jointly with Teck Cominco. These other leases are expected to provide organic growth opportunities and future funding flexibility for the Company. UTS considers that the right to participate in future expansions of the Sturgeon Upgrader makes it a strategic asset for the development of its other leases and potentially for processing third party bitumen on a merchant basis.

OVERVIEW

UTS, in conjunction with its partners in the Fort Hills Project, initiated the Front End Engineering Design ("FEED") stage of the Fort Hills Project during the third quarter of 2007. Since then, the FEED stage has been progressing well, consistent with the scheduled completion of this stage by mid 2008.

On November 26, 2007, UTS closed the transaction announced September 19, 2007, whereby its current partners, Petro-Canada and Teck Cominco, will each earn a further 5% working interest in the Fort Hills Project for consideration of a $750 million further earn-in. As a result, UTS reduced its partnership interest to 20%.

UTS also announced the closing on November 19, 2007 of its previously announced equity offering with gross proceeds of approximately $275.5 million.

With the combination of the new earn-in and new equity, UTS is now fully funded for its share of the first $7.5 billion of Fort Hills Project expenditures. Additionally, these transactions give UTS some time to further demonstrate the potential value of its assets outside the Fort Hills Project prior to finalizing the balance of its financing for Phase I of the Fort Hills Project anticipated to occur between the third quarter of 2008 and the fourth quarter of 2009 dependent upon available terms and market conditions. As such, the earn-in and new equity are expected to secure the Company's continued financial flexibility to meet its future funding needs.

The Company is working with mining and engineering consultants to assess the feasibility of developing Lease 14, now referred to as the Equinox oil sands mine (the "Equinox Project"), as a 50,000 bbls/day stand-alone operation. Other options are also being considered.

The results of UTS' 2006/2007 winter drilling program were released on December 12, 2007 confirming previous expectations that extensive oil sands deposits exist within the exploration lands, west of the Athabasca River.

UTS' management firmly believes that the combination of the Fort Hills Partnership and the land assets on the west side of the Athabasca River, particularly the Equinox Project, and Leases 311 468, 470 and 477 (the "Lease 311 Area"), together with Lease 610, now referred to as the Frontier oil sands mine (the "Frontier Project"), present a strong growth opportunity for UTS shareholders. Moreover, the combination of these assets presents a greater value proposition than when these assets are viewed or owned individually, for example, through the access to Fort Hills infrastructure such as a dilbit pipeline.

OIL SANDS LEASE HOLDINGS

UTS currently holds 154,674 net acres of oil sands leases, with an average working interest of 45%. This includes 12,220 net acres associated with the Fort Hills Project and 142,454 net acres outside the Fort Hills Project, as detailed in the following table.

Oil Sands Leases	Total Acreage	UTS Working Interest	UTS Net Acreage	UTS Net Hectares
Fort Hills Project				
Lease T05	5,873	20%	1,175	470
Lease 008	5,715	20%	1,143	457
Lease T52	35,110	20%	7,022	2,809
Subtotal	46,698	20%	9,340	3,736
Fort Hills Partnership				
Lease 438	5,440	20%	1,088	435
Lease 437	7,680	20%	1,536	614
Lease 634[1]	1,280	20%	256	102
Fort Hills Partnership Subtotal	61,098	20%[2]	12,220	4,887
Equinox Project				
Lease 14[3]	7,147	50%	3,574	1,430
Frontier Project				
Lease 311	11,520	50%	5,760	2,304
Lease 468	5,120	50%	2,560	1,024
Lease 470	5,120	50%	2,560	1,024
Lease 477	5,120	50%	2,560	1,024
Lease 610	15,360	50%	7,680	3,072
Subtotal	42,240	50%	21,120	8,448
Exploration Area West of the Athabasca River				
Lease 469	5,120	50%	2,560	1,024
Lease 471	5,120	50%	2,560	1,024
Lease 513	23,040	50%	11,520	4,608
Lease 514	23,040	50%	11,520	4,608
Lease 611	7,680	50%	3,840	1,536
Lease 614	7,040	50%	3,520	1,408
Lease 615	6,400	50%	3,200	1,280
Lease 840[4]	23,040	50%	11,520	4,608
Lease 915	8,320	50%	4,160	1,664
Subtotal	108,800	50%	54,400	21,760
Exploration Area East of the Athabasca River				
Lease 421[5]	11,520	50%	5,760	2,304
Lease 422	11,520	50%	5,760	2,304
Lease 423	11,520	50%	5,760	2,304
Lease 509	23,040	50%	11,520	4,608
Lease 510	23,040	50%	11,520	4,608
Lease 511	23,040	50%	11,520	4,608
Lease 837	23,040	50%	11,520	4,608
Subtotal	126,720	50%	63,360	25,344
Subtotal (Leases Outside FHP)	284,907	50%	142,454	56,982
Total Leases	346,005	45%	154,674	61,869

Notes:

1. UTS previously owned 100% of Lease 634 which is adjacent to Lease 437. UTS and the Fort Hills Partnership have finalized a formal agreement to convey Lease 634 into FHEC for proceeds totalling $725,000.
2. On November 26, 2007, UTS announced the finalization of a binding memorandum of agreement to secure further funding in the Fort Hills Partnership in which Petro-Canada and Teck Cominco will each earn a further 5% working interest in the Fort Hills Project.
3. On June 28, 2007, UTS closed a previously announced transaction under which Teck Cominco acquired a 50% working interest in Lease 14 for approximately $200 million.
4. Lease 840 is contiguous to the Frontier Project Leases may be included in the Frontier Project pending further drilling results next winter.
5. In July 2007, UTS and Teck Cominco agreed that Teck Cominco would acquire a 50% working interest in Lease 421 for approximately $120,000.

2007 HIGHLIGHTS

FORT HILLS PROJECT - Contingent Bitumen Resource
(Leases T05, T52 and 008)

The Fort Hills Project comprises of oil sands Leases T05, T52 and 008 (the "Fort Hills Project Leases") comprising a total of 46,698 acres, located 90 kilometers north of Fort McMurray in the main Athabasca oil sands fairway. UTS holds a 20% interest in the Fort Hills Project Leases (9,340 acres). The range of contingent bitumen resources for the entire Fort Hills Project and UTS' associated working interest in the proposed Fort Hills Project over the past three years is summarized below. Based on the 2007 Fort Hills mine plan, the Sproule Associates Limited's ("Sproule") Audited Best Estimate of Contingent Bitumen Resources associated with the Fort Hills Project Leases for the year ended December 31, 2007 is 4.0 billion barrels, compared to the Sproule Audited Best Estimate of 4.7 billion barrels on December 31, 2006. UTS' working interest share of the Fort Hills Project's contingent bitumen resources is estimated to be 806 million barrels for the year ended December 31, 2007.

Fort Hills Contingent Bitumen Resources

	December 2005[1] billion barrels	December 2006[2] billion barrels	December 2007[3] billion barrels	UTS' 2006 30% Share billion barrels	UTS' 2007 30% Share[4] billion barrels	UTS' 2007 20% Share[5] billion barrels
Low Estimate	2.4	3.1	3.4	0.9	1.0	0.7
Best Estimate	3.5	4.7	4.0	1.4	1.2	0.8
High Estimate	4.6	5.5	4.4	1.7	1.3	0.9

Notes:

1. The December 2005 figures are from a report prepared by GLJ Petroleum Consultants Ltd., the purpose of which was to consider a marketable product of synthetic crude oil. The bitumen estimates noted above were provided for comparison purposes only.
2. Based on Form 51-101 F2 Resources effective December 31, 2006 and dated February 26, 2007, figures that were audited by Sproule and were estimated using naphthenic froth treatment.
3. Based on Form 51-101 F2 Resources effective December 31, 2007 and dated February 7, 2008, figures that were audited by Sproule and were estimated using paraffinic froth treatment.
4. This shows the impact of the change in type of froth treatment and change in pit boundaries.
5. This shows the combined impact of the changes within the Fort Hills Project and the change in UTS' working interest from 30% to 20%.

Contingent resources are defined in the Canadian Oil and Gas Evaluation Handbook ("COGEH") as published by the Canadian Section of the Society of Petroleum Evaluation Engineers as "those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies".

There is no certainty that the Fort Hills Project will be commercially viable to produce any portion of the resources.

In order to move the Fort Hills contingent recoverable bitumen resources into the reserves category, remaining regulatory approvals will be required, as well as acceptance within the Fort Hills Partnership of the updates to the Fort Hills Project scope, timing, cost estimates and final Board of Directors' approval of each of the Fort Hills Partnership general and limited partners.

Based on current cost estimates and assumptions, UTS has a break even oil price of approximately WTI US$45.00 per barrel at a 8.0% discount rate. This estimate assumes an exchange rate of US$/C$0.83 and operating expenses of approximately $26.50 per barrel, and is based on our understanding of current regulatory and tax legislation. UTS' corporate forecast links the value of the Canadian dollar to oil prices with parity occurring at approximately $85 WTI.

The contingent resource estimates in the above table represent partially de-asphalted bitumen. The "Best Estimate" is the current basis of the audited mine plan. There are two major contributions to the reduction in the estimate:

1. the move from naphthenic to paraffinic froth treatment to produce a higher quality product reduced the contingent resource estimate by approximately 400 million barrels. This change in froth treatment technology affects the overall resource as paraffinic froth treatment rejects a portion of the asphaltenes from the bitumen, but is partially offset by higher yield at the Upgrader; and

2. the change in the pit boundaries which resulted from changes to the Out-of-Pit Tailings Area (OPTA) design, and plant layout optimization accounted for an additional reduction of approximately 300 million barrels.

The decision to produce a more fungible de-asphalted bitumen product from the Fort Hills mine enhances the overall project flexibility and is expected to add flexibility and value during the production phase and provide additional flexibility in marketing, resulting in earlier cash flow prior to the Upgrader coming on stream. It also allows for a staggered start up to the mine and Upgrader. The reduction in bitumen volumes is partially offset by the higher quality bitumen product and higher yield of synthetic crude oil production. At four billion barrels recoverable, the fully built out Fort Hills Project, which could produce up to 340,000 bbls/day of bitumen, has a field life of approximately 40 years.

FORT HILLS PROJECT - Project Engineering

The FEED studies of the Fort Hills Project were initiated during the third quarter of 2007, with a scheduled completion date of mid 2008. The design basis for the FEED studies targets the production of 140,000 bbls/day of synthetic crude oil. Associated bitumen production is expected to be approximately 160,000 bbls/day. The preliminary capital cost estimate for the mine and upgrading components of the first phase of the Fort Hills Project is $15.2 billion, including the current FEED activity.

The FEED stage is progressing in line with the scheduled completion of this stage by mid 2008. FEED contracts have been awarded for all of the major process units or "silos". Subject to satisfactory performance, many of these contracts will roll-over into Engineering Procurement and Construction ("EPC") contracts, ensuring continuity and accountability of the contractors. Orders have been placed for many long lead items, including the major process vessels and mining equipment. An agreement has been signed with Enbridge Inc. under which it will develop the dilbit and diluent pipelines connecting the mine and the Upgrader and the tank farms at both locations. The system will be capable of expansion for subsequent phases. The bid process for major construction contracts has also been initiated.

Options for transportation of products and monetization of by-products, particularly coke, continue to be examined.

Inflationary factors, including local labour demand and global material and equipment costs, continue to cause concern. The availability of skilled personnel, particularly certain trades such as welders and electricians, continues to present the greatest challenge to the successful execution of major projects in Alberta. The Fort Hills Project is exposed to these challenges, and the first half of 2007 was critical in terms of optimizing the Fort Hills Project scope and execution strategy to minimize their impact. In addition to optimizing "economies of scale", the execution strategy seeks to mitigate the risks associated with demand for labour by adopting a staggered completion of the mine and Upgrader with the Phase I mine and bitumen production project on-line in the fourth quarter of 2011 and the Sturgeon Upgrader (the "Sturgeon Upgrader" or "Upgrader"), located approximately 40 kilometres northeast of Edmonton, on-line in the second quarter of 2012. This will offset the labour demand peaks for the two projects and allow the overall maximum labour demand to be substantially reduced. While not in the base plan, it will

also be possible to stagger the completion of the two bitumen production trains so as to further smooth labour requirements.

PCOSI continues to work closely with both the Alberta and federal governments to further enhance the availability of skilled labour.

FORT HILLS PROJECT - Regulatory Approvals

The major permits and approvals required to proceed with construction and development of a mine and process facilities for the production of up to 235,000 bbls/day or 190,000 bbls/day annualized average of clean bitumen from the Fort Hills Project Leases were granted by the Alberta government regulators in December 2002. On July 27, 2007, PCOSI, as operator for the Fort Hills Partnership, filed a revised application with the Energy Resources Conservation Board ("ERCB") and Alberta Environment ("AENV") to amend the existing mine approval to be consistent with the current design basis. Petro-Canada has since responded to a number of Supplementary Information Requests received from the regulators and is addressing Statements of Concern from stakeholders. Approval of the requested changes is expected during the second half of 2008.

In December 2006, PCOSI, on behalf of the Fort Hills Partnership, filed an application with the EUB and AENV to construct and operate the Sturgeon Upgrader. In December 2007, Alberta Environment deemed the Environment Impact Assessment application to be complete. A pre-hearing is scheduled for March 14, 2008 to address various administrative matters and to set a date for the public hearing. Confirmation of the hearing date is expected shortly. At the hearing a number of unresolved stakeholder issues are expected to be considered. Regulatory approval for construction of the Upgrader is expected 90 days after the public hearing.

FORT HILLS PROJECT - Cost Estimates

The overall cost estimates for the Fort Hills Project were announced on June 28, 2007. The costs for Phase I of the Fort Hills Project (on a 100% basis) are broken down as follows with $11.8 billion for the base cost, plus $3.4 billion (29%) in contingency and escalation for a total of $15.2 billion forward costs (split into $1.1 billion for FEED and $14.1 billion for the Fort Hills Project execution of Phase I).

The Phase I costs including FEED engineering but excluding third party costs are as follows:

	Design Capacity (bbls/d SCO)	Estimated Operational Capacity (bbls/d SCO)	Estimated Operational Capacity Cost per flowing bbl	Total Capex ($ billions)
Phase I	~140,000	~154,000	~$99,000 (+/-)	$15.2
Phase I - UTS' share	~28,000	~30,000	~$63,000 (+/-)	$1.9

Items of Note:

- Go-forward CAPEX – inflated, $ of the day.
- UTS is required to fund $100 million of first $2.5 billion of gross CAPEX spending, $250 million of the next $5 billion of gross CAPEX spending and 20% thereafter.
- UTS' ~$350 million of cash on hand provides funding until the fourth quarter of 2009.
- Based on current expenditure profiles, the $7.5 billion spend on the Fort Hills Project is expected to be reached during the fourth quarter of 2009.

UTS has essentially decreased its cost per flowing barrel from $99,000 to $63,000 with the earn-in transactions and reduced its Phase I funding requirements to $1.9 billion.

It is anticipated that the Fort Hills Partnership will commit to agreements involving approximately $3.6 billion in third party capital. The cost of these agreements will be reflected in operating costs or capital leases. These agreements will be subject to the negotiation of arrangements that are attractive commercially and that offer operational efficiencies to the Fort Hills Partnership. Enbridge Inc. will develop the pipeline and tank farms at both the mine site and Upgrader. The aforementioned third party capital includes the following:

- operations and construction camps, cogeneration and electrical substation at the mine site; and
- hydrogen supply, sulphur handling and coke handling at the Upgrader.

FORT HILLS PROJECT - Funding

On November 19, 2007, UTS announced that it closed its previously announced equity offering with gross proceeds of approximately $275.5 million. Under the bought deal, with RBC Capital Markets as the sole bookrunner, the underwriters agreed to purchase 41.8 million common shares at a price of $6.10 and 2.70 million common shares issued on a flow-through basis at a price of $7.60 per share.

On November 26, 2007, UTS announced that it signed the final documentation associated with the transaction announced September 19, 2007, whereby UTS reduced its working interest in the Fort Hills Project and its current partners, Petro-Canada and Teck Cominco, each earn a further 5% working interest in the Fort Hills Project. Petro-Canada and Teck Cominco will contribute a combined total of $1.4 billion on UTS' behalf toward UTS' share of the first $7.5 billion of expenditures on the Fort Hills Project. UTS' share of the first $7.5 billion to earn 20% working interest in the Fort Hills Partnership is $350 million.

UTS expects that the spending for the Fort Hills Project will reach $7.5 billion during the fourth quarter of 2009, and as such, UTS estimates that it is currently fully funded for the Fort Hills Project activities well beyond project sanction, which is expected to occur in the second half of 2008.

UTS will spend approximately 5% of the first $7.5 billion of spend to earn a 20% working interest. Overall, UTS will spend only 12.6% of Phase I capital costs for its 20% working interest. This is due to UTS' carried interest, based on the earn-in structure, as the Fort Hills Partner's spend on UTS' behalf to earn their respective interests.

Fort Hills Partnership Commitment for First $7.5 Billion

(C $millions except percentages)	UTS' Dedicated Funding (Earn-in)	Partners' Funding Contribution	Partner Commitments on First $7,500 of FHP Project Spend
Petro-Canada (operator)	$675	$750	$4,925
Teck Cominco	725	250	2,225
UTS Energy Corporation	100	250	350
Total:	$1,500	$1,250	$7,500

Fort Hills Partnership Spend

(C $millions except percentages)	Approximate Contribution Percent of First $7,500 of FHP Project Spend	Approximate Contribution Percent of Phase I FHP Project Spend	Partner Interest After Earn-in Percent	Fort Hills Partnership Incurred Expenditures Since Inception Until December 31, 2007
Petro-Canada (operator)	65%	63%	60%	$462
Teck Cominco	30%	25%	20%	254
UTS Energy Corporation	5%	12%	20%	30
Total:	100%	100%	100%	$746

The terms of the Fort Hills Partnership agreements provide that if the Fort Hills Partnership were to determine that the Fort Hills Project will not proceed, which would be a decision requiring unanimous agreement amongst the Fort Hills Partners, UTS would be entitled to the remaining amount of Petro-Canada's earn-in of $0.675 billion and Teck Cominco's earn-in of $0.725 billion unless costs have exceeded $7.5 billion.

UTS is currently assessing options for meeting its funding requirements beyond the fully funded $7.5 billion, which is anticipated to be $1.6 billion. These options include borrowings both in the public and private banking/bond market, equity, and asset transactions.

FORT HILLS PARTNERSHIP LEASES
(Leases 437, 438 and 634)

The Fort Hills Partnership holds Leases 437 and 438 to the northeast of the Fort Hills Project Leases with a total area of 13,120 acres. UTS' working interest is 20%. During the 2006/2007 winter drilling season, 94 core holes were drilled to assess the resource potential of these leases. The results of this program suggest that the resource potential of these leases is limited. As a result, these leases are expected to provide additional planning flexibility for the development of the Fort Hills Project Leases. Several options are being considered by the Fort Hills Partnership.

Lease 634 was acquired by UTS in September 2005 and conveyed into FHEC earlier in 2007 for proceeds totaling $725,000. UTS' working interest is 20%.

EQUINOX PROJECT
(Lease 14)

Lease 14, which is owned 50% by UTS and 50% by Teck Cominco, comprises 7,147 acres on the west side of the Athabasca River, directly across the river from the northern boundary of the Fort Hills Project and bisects oil sands leases associated with the proposed Pierre River Mine operated by Shell Canada Limited ("Shell"). During the 2005/2006 and 2006/2007 winter seasons, UTS drilled a total of 124 core holes on Lease 14, resulting in a drilling density of approximately one core hole per legal subdivision over the prospective eight sections. This core hole density is sufficient to establish a contingent resource estimate. Consequently, no additional core hole drilling was undertaken during the current winter season, however geo-technical drilling and hydrogeological monitoring has been completed this season. A bulk sampling program is also planned for the current winter season to provide material for extraction and froth treatment pilot testing.

EQUINOX PROJECT - Contingent Bitumen Resource

For the year ended December 31, 2007, GLJ Petroleum Consultants Limited ("GLJ"), as independent reserves evaluators, presented contingent bitumen resource estimates associated with Lease 14, now referred to as the Equinox Project, as required by National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. GLJ's Best Estimate of the contingent recoverable bitumen resources associated with Lease 14 as of December 31, 2007 was 350 million barrels. The Best Estimate of contingent resource for Lease 14 was reduced by 30 million barrels, from 380 million barrels to 350 million barrels, by recognizing a paraffinic rather than a naphthenic froth treatment to produce a marketable bitumen product. Given UTS' 50% working interest in Lease 14, UTS' corresponding interest in the contingent recoverable bitumen resources was estimated to be 175 million barrels. In a report dated February 14, 2008, GLJ presented independent estimates of the contingent resources associated with Lease 14. GLJ's gross lease estimates are presented in the table below. Lease 14 is still in the early stages and further evaluation is required to confirm the planning basis before reserves can be assigned. Contingent resources are defined following the table below.

GLJ notes that the volumes listed in the table below entitled "Contingent Bitumen Resources", refer to recoverable bitumen estimates, as per the definition of "Contingent Resources" in COGEH.

Contingent Bitumen Resources (Lease 14) December 31, 2007

	Gross (Million bbls)	Net to UTS (50% WI) (Million bbls)
Low Estimate	270	135
Best Estimate	350	175
High Estimate	400	200

Contingent resources are defined in the Canadian Oil and Gas Evaluation Handbook ("COGEH") as published by the Canadian Section of the Society of Petroleum Evaluation Engineers as "those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies".

There is no certainty that it will be commercially viable to produce any portion of the resources.

EQUINOX PROJECT - Project Activities

UTS is assessing the potential for developing a commercial oil sands operation on Lease 14. Preliminary studies suggest that a stand-alone mine and extraction plant could be viable. A preliminary schedule suggests that at the earliest a plant could be in operation by 2014.

Engineering consultants are being engaged to develop a Design Basis Memorandum ("DBM") to refine the preliminary plan and cost estimate for a stand-alone mine and extraction plant operation with a production capacity in the order of 50,000 bbls/day of deasphalted bitumen. In support of these activities, 18 geo-technical auger holes were drilled during the 2007/2008 winter season. A bulk sample program has been initiated to obtain material for extraction and froth treatment pilot testing.

An environmental baseline study was completed in 2006. No major concerns were identified. Four sets of hydro-geological wells continue to be monitored.

A Public Disclosure Document is to be released on March 25, 2008 initiating the regulatory process for the Equinox Project. Following its release, UTS will initiate a consultation process with government regulators and stakeholders leading to agreement on the Terms of Reference for an Environmental Impact Assessment and Regulatory Application.

In parallel with these activities, UTS continues to assess other strategic options for maximizing the value of the Equinox Project. At present, no decisions have been made regarding quality specifications, marketing and transportation arrangements, or joint development with other area operators. Shell has recently applied to develop its leases on either side of Lease 14 as the core of its 200,000 bbls/day Pierre River mine project.

EXPLORATION AREA WEST OF THE ATHABASCA RIVER
(Leases 311, 468, 469, 470, 471, 477, 513, 514, 610, 611, 614, 615, 840 and 915)

UTS, on behalf of itself and Teck Cominco, drilled 57 core holes in Lease 311 Area during the 2006/2007 winter season, resulting in a drilling density of approximately two core holes per section. An additional 10 core holes were drilled near the southern boundary of Lease 840, six of

which encountered oil sands. The results were released on December 12, 2007 confirming previous expectations that extensive oil sands deposits exist within these exploration lands west of the Athabasca River.

UTS retained Norwest Corporation ("Norwest") to provide a preliminary assessment of the Frontier Project, based on the results of the 63 core holes drilled during the 2005/2006 and 2006/2007 winter seasons. Norwest's estimate, in its report dated February 8, 2008, of Discovered Petroleum Initially-In-Place of bitumen based on the drilling density of two wells per section and a TV:BIP of 16:1 resulted in a Low Estimate of 279 million barrels; Best Estimate of 1,051 million barrels; and High Estimate of 2,791 million barrels.

Discovered Petroleum Initially-In-Place is defined as "that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production". A more specific classification of the Discovered Petroleum Initially-in-Place can only be made after additional core hole drilling has been completed to increase the core hole density.

Based on experience gained through infill drilling on Lease 14, and with preliminary analysis of the results from an extensive 2007/2008 delineation drilling program of the Frontier Project, UTS' management believes that the best estimate of Discovered Resources will move closer to the aforementioned High Estimate of 2.7 billion barrels. In addition, UTS and Teck Cominco expect that the drilling density resulting from this 2007/2008 program will be sufficient to provide a contingent resource estimate by the end of 2008.

There is no certainty that it will be commercially viable to produce any portion of these resources.

EXPLORATION AREA EAST OF THE ATHABASCA RIVER
(Leases 421, 422, 423, 509, 510, 511 and 837)

During the 2006/2007 winter season, UTS, on behalf of itself and Teck Cominco, conducted a small exploratory drilling program, comprising 20 core holes, to provide an initial evaluation of the resource potential on five of the seven leases on the east side of the Athabasca River. These core holes did not encounter mineable oil sands. However, with over 90,000 acres of land contained within those leases, additional drilling will be required to fully assess the prospectivity.

2007/2008 DELINEATION AND EXPLORATION DRILLING PROGRAM UPDATE

UTS DRILLING PROGRAM SUMMARY

The 2007/2008 winter season is the second year in which UTS, jointly with Teck Cominco, has conducted an extensive and successful core hole drilling program. The following chart summarizes our drilling activities over the past two years.

UTS Drilling Program	Core Holes Drilled Prior to 2007/2008 Season	2007/2008 Core Hole Program	Total Number of Core Holes Drilled
West of the Athabasca River			
Lease 14 (Equinox Project)	124	-	124
Leases 311, 468, 470, 477, 610 (Frontier Project)	63	286	349
Lease 840	10	9	19
Leases 514 & 513	2	18	20
Leases 469 & 471	-	-	-
Leases 611, 614, 615 & 915	-	4	4
East of the Athabasca River			
Lease 509, 510, 511 & 837	15	-	15
Leases 422 & 423	5	-	5
Lease 421	-	4	4[2]
Total	219	321[1]	540

Notes:

1. We expect to drill between 330 - 340 cores holes this year.
2. We expect to drill five core holes this year.

FRONTIER PROJECT
(Leases 311, 468, 470, 477, and 610)

As of March 12 2008, UTS, on behalf of itself and Teck Cominco, has drilled a total of 317 core holes on the west side of the Athabasca River during the 2007/2008 winter season. The majority of this activity has been focused on the Lease 311 Area, now referred to as the Frontier Project. Initial log analysis has confirmed the gross trends and features resulting from the previous 2006/2007 drilling program.

In the northern part of the Frontier Project area, drilling has also confirmed the extension of the oil sands trend into Lease 610, where a total of 27 core holes have been drilled. Accordingly, an extensive infill drilling program is planned for Lease 610 in the 2008/2009 winter season.

UTS and Teck Cominco are assessing development options for the mineable oil sands found as a result of the exploration program to the west of the Athabasca River. Further details will be outlined in a Public Disclosure Document to be released on March 25, 2008. Following completion of the core hole analysis from the 2007/2008 drilling program the geological model is expected to be updated and a detailed mine plan initiated.

Environmental baseline studies are being conducted and a bulk sampling program is underway to provide material for extraction and froth treatment pilot testing. Twenty geotechnical auger holes are planned for the 2008 winter season, nine of which have been drilled with 10 sets of piezometers installed for the monitoring of ground water conditions.

At present, no decisions have been made regarding quality specifications, marketing and transportation arrangements, or joint development with other area operators.

EXPLORATION AREA WEST OF THE ATHABASCA RIVER
(Leases 469, 471, 513, 514, 611, 614, 615, 840 and 915)

Results further north in Lease 840 have, in general, been disappointing and have not found mineable resources although there is currently insufficient data to fully evaluate this Lease. A future drilling program is also planned for the remainder of this area.

In addition, as of March 12, 2008, six wells with depths of between 500 and 540 metres, have been drilled this winter and 100 km of 2D seismic field data acquired to evaluate the prospectivity of in situ Leases 469, 471, 513, 611, 614, 615 and 915 along the eastern edge of the Birch Mountains. The integration of the well data and the seismic data will provide a broader understanding of this area. This work is expected to be completed by the fourth quarter of 2008, where upon the 2008/2009 drilling program will be determined.

UTS' share of the exploration drilling and delineation costs will be funded by the remaining $80 million in proceeds to be received from Teck Cominco in 2008 and 2009, as well as through the recent issuance of flow through share equity offerings.

EXPLORATION AREA EAST OF THE ATHABASCA RIVER
(Leases 421, 422, 423, 509, 510, 511 and 837)

A limited exploration drilling program is also being conducted during the 2007/2008 winter drilling season to determine the bitumen resource potential associated with the Company's exploration leases to the east of the Athabasca River. Five core holes are planned on Lease 421 in the Firebag area, which is in the early stages of evaluation.

CURRENT OPERATIONS

UTS is a development stage enterprise whose main activities are the development of its extensive oil sands leases. At this time, UTS does not have any production revenue, and is not expected to, until production commences at the Fort Hills Project. The Company's financial results are reported in Canadian dollars based on Canadian generally accepted accounting principles ("GAAP").

UTS' net income for the quarter ended December 31, 2007 was $10,398,637 or $0.02 per share, compared with a net income of $2,460,837 or $0.01 per share, for the same period in 2006. The net income for the year ended December 31, 2007 was $137,371,596 or $0.32 per share, compared with a net income of $6,476,155 or $0.02 per share for the same period in 2006. Significant items included in the determination of the net earnings and the changes between the comparative periods are described below.

The gain on disposition of oil sands interests is the main reason for the net income in 2007 and consists primarily of the disposition of 50% of Lease 14 to Teck Cominco. On April 19, 2007, the Company announced that it had entered into a letter of intent under which Teck Cominco would acquire a 50% working interest in Lease 14 for approximately $200 million. The price was based on a value of $1.00 per barrel and an assumed bitumen resource of approximately 400 million barrels. The transaction provided for a final adjustment to take place once the full analysis on Lease 14 drilling results was complete, which occurred in the fourth quarter of 2007. Subject to this potential adjustment, this transaction closed on June 28, 2007. As announced by the Company on December 3, 2007, the third party resource estimate fixed the transaction volume at 400 million barrels. The sale price is to be received in three instalments as follows:

i. 60% of the base price of $200 million, or $120 million, less the loan balance of $79.4 million owing by UTS to Teck Cominco. This payment, totaling $40.6 million, was received on the closing date of June 28, 2007;

ii. $40 million, on June 28, 2008; and

iii. $40 million, on June 28, 2009.

As required by the new Canadian GAAP regarding financial instruments, the final two instalments of proceeds have been discounted by $5.2 million at a rate of 4.5% over the time remaining to their respective due dates. Accretion of the discount has been recognized as follows and is included with interest income on the statement of operations.

Discount remaining to be accreted at June 28, 2007	$5,202,545
Accretion	(1,734,928)
Discount remaining to be accreted at December 31, 2007	$3,467,617

The discounted proceeds on the disposition were therefore $194,797,455 and the resultant gain on disposition was $184,215,355.

Interest income increased over the prior year as a result of higher invested cash balances and higher rates of return having been earned during 2007 over 2006. Additionally, accretion of the non-interest bearing sales proceeds receivable from the disposition of 50% of Lease 14 noted above of $1,734,928 has been included as interest income.

General and administrative expenses ("G&A") pertain to the Company's corporate operating expense. During the fourth quarter of 2007, G&A expensed totalled $3,724,298 compared to $1,029,132 for the fourth quarter of 2006. G&A expensed for the year ended December 31, 2007, totalled $14,690,865 compared with $10,918,456 for 2006. Included in G&A costs for the years ended December 31, 2007 and 2006 are the Company's share of G&A costs which have been incurred by the Fort Hills Partnership and are not considered direct expenses of the Fort Hills Project totalling $539,160 and $206,120, respectively. As the Fort Hills Partnership increases its staff and its complexity as it proceeds further along in the development of the Fort Hills Project, certain costs will be incurred which, although required legally or administratively, are not directly related to the development of the Fort Hills Project and are therefore expensed.

Stock based compensation included in the G&A which has been expensed totalled $7,698,020 and $3,929,228 for 2007 and 2006, respectively. The increase in overall G&A reflected a corresponding increase in the overall level of corporate activity, staff complement and compensation due to increasing activity regarding the Fort Hills Project and UTS' other lease interests. G&A which is directly attributable to exploration and development activities is capitalized to property, plant and equipment. The total amount of G&A capitalized to property, plant and equipment during 2007 and 2006 totalled $11,053,345 and $4,388,449, respectively. A greater proportion of the G&A was capitalized in 2007 compared to 2006, as a result of having incurred more costs directly attributable to the higher level of exploration and development activity undertaken by the Company. Included in G&A capitalized for the years ended December 31, 2007 and 2006 is stock-based compensation of $4,737,214 and $1,928,788 respectively.

Amortization has decreased from $2,400,032 for the year ended December 31, 2006 to $205,598 for the year ended December 31, 2007. During the year ended December 31, 2006, the Fort Hills Partnership had written off the cost of the BITMIN demonstration plant, which had been run as a test of the BITMIN extraction technology in late 2005/early 2006. The Fort Hills Partnership had decided against utilization of the technology in the Fort Hills Project and the plant site was dismantled. UTS' portion of the write-off totalled $2,249,880 and was included in amortization expense at December 31, 2006.

At December 31, 2006, the future tax benefits associated with share issue costs and losses incurred during the years from 2004 to 2006, which are eligible for 10 to 20 year carryforward, were recognized in the financial statements for the year then ended as management believed it more likely than not that such losses would be utilized to offset future income streams prior to their expiration. Effective March 31, 2007, the future tax benefits associated with the older remaining loss carryforwards, which were not previously recognized, were recognized in the financial statements. The recognition of future tax benefits associated with these loss carryforwards accounted for the net earnings reported in those periods. The recently completed Lease 14 transaction with Teck Cominco has made the Company taxable in 2007, resulting in an estimated current income tax liability of $6,350,000. The Company may be able to recover some of this current tax liability with loss carrybacks over the next three years. The utilization of a significant portion of the Company's tax pools has caused the future income tax liability to increase to $88,117,900. During the fourth quarter of 2007, the Company recognized a reduction in future income tax rates, which is the primary reason for the income reported above for the fourth quarter.

SELECTED FINANCIAL INFORMATION

Year ended December 31,	**2007**	2006	2005
Total assets	**$846,163,805**	$444,926,308	$ 368,777,064
Total long-term financial liabilities	**1,479,600**	63,598,430	619,221
Total revenues[1]	**191,574,311**	3,771,141	2,041,413
Cash dividends declared	**Nil**	Nil	Nil
Income (loss) from continuing operations:			
Total	**137,371,596**	6,476,155	(6,577,344)
Basic per share basis	**0.32**	0.02	(0.02)
Diluted per share basis	**0.31**	0.02	(0.02)
Net income (loss):			
Total	**137,371,596**	6,476,155	(6,577,344)
Basic per share basis	**0.32**	0.02	(0.02)
Diluted per share basis	**0.31**	0.02	(0.02)

Note:

1. Reflects interest income only for all quarters with the exception of June 30, 2007 and September 30, 2007, during which a cumulative gain on disposition of oil sands lease interests totalling $184.2 million was recorded. UTS is a development stage enterprise and does not have any production revenue and will not, until bitumen production commences, which is expected to occur in 2011.

Two principal factors account for total assets having increased by approximately $477 million since December 31, 2005. Firstly, additional funds were received by the Company through a private placement of 2,496,000 flow-through shares in December 2006 at a price of $6.25 per share, for net proceeds of approximately $15 million and, on November 19, 2007, the Company completed a public offering on a bought deal basis of 41.8 million common shares at a price of $6.10 per share and 2.7 million common shares issued on a flow-through basis at a price of $7.60 per share, for total net proceeds of approximately $264 million. Secondly, the Company acquired working interests in additional oil sands leases in 2006/early 2007 totalling $79.4 million since December 31, 2005, which were wholly funded by Teck Cominco until the closing of the transaction relating to the disposition of 50% of Lease 14 to Teck Cominco. This transaction, which closed in June 2007, provided an additional $120.6 million in net proceeds to the Company, after repayment of the amounts owed to Teck Cominco for prior lease acquisitions.

Long term financial liabilities comprises UTS' share of the asset retirement obligation ("ARO") associated with the Fort Hills Project Leases and, at December 31, 2006 only, the loan payable to Teck Cominco arising from Teck Cominco's funding of UTS' portion of certain joint oil sands lease acquisitions. The ARO has increased as a result of revised cost estimates for the eventual site restoration of the Fort Hills Project's current disturbances, despite UTS' 10% decrease in working interest in the Fort Hills Project.

Interest income, which comprised total revenues during the years 2005 and 2006, increased over the last three years due to the additional funds injected as a result of the financings completed over the last three years and higher rates of return earned on funds held on deposit. Gains on the disposition of oil sands lease interests have accounted for additional revenues of approximately $184 million in 2007.

The large increase in net income to $137.4 million in 2007 from $6.5 million for the year ended December 31, 2006 arose primarily as a result of the disposition of the oil sands leases previously discussed net of tax effects of estimated current income taxes payable for the year and increased future income tax as a result of utilizing existing tax pools to reduce current income taxes. For the year ended December 31, 2006, the Company reported a net income of $6.5 million versus a net loss of $6.6 million in 2005, primarily due to a reduction of future income tax expense, which arose largely as a result of reflecting the reduction in future income tax rates.

Selected quarterly financial information of the Company for the last eight quarters follows:

Quarter ended	**Dec 31 2007**	**Sept 30 2007**	**June 30 2007**	**Mar 31 2007**	Dec 31 2006	Sept 30 2006	Jun 30 2006	Mar 31 2006
Total revenue [1]	**$3,233,030**	**$1,810,443**	**$185,513,508**	**$1,017,330**	$998,500	946,977	$925,527	$900,137
Earnings (loss) from continuing operations:								
Total	**10,398,637**	**(838,414)**	**127,285,620**	**525,753**	2,460,837	(2,466,412)	8,236,485	(1,754,755)
Per share basis	**0.024**	**(0.002)**	**0.298**	**0.001**	0.006	(0.006)	0.019	(0.004)
Diluted per share basis	**0.023**	**(0.002)**	**0.293**	**0.001**	0.006	(0.006)	0.019	(0.004)
Net earnings (loss) [2]								
Total	**10,398,637**	**(838,414)**	**127,285,620**	**525,753**	2,460,837	(2,466,412)	8,236,485	(1,754,755)
Per share basis	**0.024**	**(0.002)**	**0.298**	**0.001**	0.006	(0.006)	0.019	(0.004)
Diluted per share basis	**0.023**	**(0.002)**	**0.293**	**0.001**	0.006	(0.006)	0.019	(0.004)

Notes:

1. Reflects interest income only for all quarters with the exception of June 30, 2007 and September 30, 2007, during which a cumulative gain on disposition of oil sands lease interests totalling $184.2 million was recorded. UTS is a development stage enterprise and does not have any production revenue and will not, until bitumen production commences, which is expected to occur in 2011.
2. The cumulative gain on oil sands lease interests of approximately $184.2 million has resulted in the Company becoming taxable in 2007 resulting in an estimated current income liability of $6,350,000 and a future tax expense of $31,756,252.

INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment ("PP&E") net additions totalled $57,804,015 in 2007 and $86,746,197 in 2006. Included as additions are non-cash amounts, consisting of an upward adjustment of UTS' share of the asset retirement obligation associated with the Fort Hills Project, totalling $1,347,300 for 2007 and a downward adjustment of $486,921 for 2006 and capitalization of stock-based compensation of $4,737,214 and $1,928,788 for the years ended December 31,2007 and 2006, respectively.

PP&E additions for the Fort Hills Project in 2007 and 2006 totalled $20,470,714 and $12,503,780, respectively. Capital expenditures incurred in 2007 included the advancement of FEED engineering activities, rough grading of the north site, initial commitments on long lead equipment orders (including trucks and shovels), and continuing geological and regulatory activities. Capital expenditures incurred in 2006 had included bitumen resource definition, mine planning, engineering design, environmental assessments, upgrading options studies, regulatory permitting and testing of the BITMIN demonstration plant.

With the introduction of Petro-Canada and Teck Cominco to the Fort Hills Partnership, the future development of the Fort Hills Project will depend on a tri-party decision making process. Certain decisions regarding the Fort Hills Project development and operations will require a majority vote of the partners and some fundamental decisions will require a special vote and in some cases, unanimity. Future plans of the Fort Hills Project will depend on agreement on fundamental decisions of the Fort Hills Partners to the Fort Hills Project. The Fort Hills Partners have agreed to work co-operatively to further the ultimate goal of building and operating an integrated mining and upgrading development to produce and upgrade approximately 190,000 bbls/day of bitumen from the Fort Hills Project Leases comprising the Fort Hills Project. The Fort Hills Partners continue to be contractually committed to take all steps necessary to retain the Fort Hills Project Leases.

The Fort Hills Partners have optimized the plan of development for the Fort Hills Project to potentially achieve a designed production rate of up to 280,000 bbls/day of synthetic crude from Phases I and II of the Fort Hills Project. This includes regular discussions with the government regulators toward ensuring their support for any proposed changes to the plan of development.

UTS' corporate capital asset expenditures for office equipment totalled $19,091 in 2007 and $42,024 in 2006.

PP&E net additions associated with other lease interests held outside the Fort Hills Project totalled $37,314,210 and $74,200,393 in 2007 and 2006, respectively. Included in these other lease amounts for 2007 and 2006 are non-cash capitalized accretion amounts relating to the loan which was repaid to Teck Cominco totalling $7,396,134 and $900,629, respectively, a 50% interest in certain oil sands leases acquired on a joint basis with Teck Cominco totalling $8,580,376 and $62,565,501 for UTS' 50% interest, respectively. The remaining $21,337,700 incurred in 2007 and $10,734,263 incurred in 2006 consists of exploration and development costs and capitalized G&A. The Company continues to actively pursue the development of these and other related business opportunities.

SUMMARY OF CONTRACTUAL OBLIGATIONS

The long term obligations comprise long term liabilities of the Company with indeterminate settlement dates.

		Payments Due By Period			
Contractual Obligations	Total	under 1 year	1 – 3 years	4 – 5 years	after 5 years
Long term debt	Nil	Nil	Nil	Nil	Nil
Operating leases	1,316,000	726,000	565,000	25,000	Nil
Other long term obligations[1]	4,200,000	Nil	Nil	Nil	4,200,000
Total contractual obligations	5,516,000	726,000	565,000	25,000	4,200,000

Note:

1. The Company is responsible for its 20% share of the future site restoration costs of the Fort Hills Project. Such costs are recognized for financial statement purposes on a present value basis over the life of the Fort Hills Project. The undiscounted, uninflated amount of $4.2 million, representing the Company's 20% share, is included in the table.

EQUITY FINANCINGS

On December 1, 2006, the Company completed a private placement of 2,496,000 common shares on a flow-through basis at a price of $6.25 per share for aggregate gross proceeds of $15.6 million and net proceeds of approximately $15 million. The proceeds of this offering were used to fund UTS' share of the cost of the winter 2006/2007 exploration and drilling program on leases held by UTS, including certain leases owned jointly with Teck Cominco. The proceeds were fully expended on qualifying exploration activities renounced to the participating investors of that offering.

On November 19, 2007, the Company completed a public offering on a bought deal basis of 41.8 million common shares at a price of $6.10 per share and 2.7 million common shares issued on a flow-through basis at a price of $7.60 per share, for total gross proceeds of $275.5 million and net proceeds of $264.2 million after direct expenses.

Gross proceeds of financing	- common shares	$254,980,000
	- flow through shares	20,520,000
Use of proceeds:		
Common shares - to fund operational and development expenses related to UTS' oil sands projects and for general corporate purposes.		
Flow-through shares - to incur qualifying Canadian Exploration Expenses, which will be renounced in favour of subscribers for the 2007 taxation year		
Actual Flow-through spending incurred to date		$20,520,000

OUTSTANDING SHARE DATA

The following shares were outstanding at December 31, 2007 and March 12, 2008:

	Number of Shares	Consideration
Outstanding, December 31, 2007 and March 12, 2008	472,255,407	$587,487,269

The following equity awards, entitling the holders to acquire common shares of the Company, were outstanding at March 12, 2008:

	Range of Exercise Price	Weighted Average Exercise Price	Number Outstanding	Number Exercisable
Incentive Stock Options [1]	$0.30-6.53	$3.59	17,357,759	8,568,058
Share Appreciation Rights [2]	0.30 -7.42	$2.15	1,163,317	1,163,317
Deferred Share Units [3]	n/a	n/a	802,472	-

Notes:

1. The shareholders of the Company approved, at the Annual and Special Meeting of Shareholders held May 17, 2007, an amendment to the Company's Incentive Stock Option Plan ("Option Plan") to increase the maximum number of common shares which may be issued pursuant to the Option Plan from 20 million to 30 million common shares.
2. The shareholders of the Company approved, at the Annual and Special Meeting of Shareholders held May 26, 2005, an amendment to the Company's Share Appreciation Rights Plan (the "SAR Plan") to increase the maximum number of common shares which may be issued pursuant to the SAR Plan from 2.5 million to 3 million common shares.
3. The shareholders of the Company approved, at the Annual and Special Meeting of shareholders held May 25, 2006, a Deferred Share Unit Plan ("DSU Plan") under which the Company may grant deferred share units ("DSUs") to non-executive directors and selected employees. The maximum number of deferred share units available for issuance under the DSU Plan is 2,500,000 DSUs.

UTS AS PART OF COMPOSITE INDEX

At December 31, 2007, UTS had a weighting in the index of 0.177% and a relative ranking of 102 out of 258 versus a weighting of 0.138% and a relative ranking of 124 out of 277 on December 31, 2006. Currently UTS has a weighting of 0.195% and a relative ranking of 87 out of 252 as at March 12, 2008.

Date	March 12, 2008	December 31 2007	December 31 2006
Composite Index:			
UTS' Weighting (%)	0.195	0.177	0.138
UTS' Relative Ranking	87	102	124
Number of Constituents in Index	252	258	277

CRITICAL ACCOUNTING ESTIMATES

INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

DISCOUNTED SALE PROCEEDS

The Company has discounted the non-interest bearing proceeds receivable due on the first and second anniversary dates of the closing of the sale of a 50% working interest in Lease 14 to Teck Cominco on June 28, 2007. The sale price is to be received in three installments as follows:

1. 60% of the base price of $200 million, or $120 million, less the loan balance of $79.4 million owing by UTS to Teck Cominco. This payment, totaling $40.6 million, was received on the closing date of June 28, 2007;

2. 50% of the remaining adjusted purchase price on June 28, 2008; and

3. 50% of the remaining adjusted purchase price on June 29, 2009.

The interest rate used was 4.5% and the discount of $5.2 million will be accreted over time to the respective instalment due dates. Accretion of the discount has been included in interest income as is required by GAAP.

ASSET RETIREMENT OBLIGATION

PCOSI, as operator of the Fort Hills Project, has provided a revised cost estimate for the eventual site restoration of the Fort Hills Project's current disturbances. The undiscounted, inflated future cash flow estimate has been revised upward to $47.3 million from $6.6 million. Using assumptions that estimate the life of the Fort Hills Project to be 40 years, an inflation factor of 2.5% and a risk-free interest rate discount factor of 6.3% (2006 - 7%), the fair value of the Company's 20% share (2006 - 30% share) of the site restoration costs has been estimated as follows:

Balance, December 30, 2005	$ 619,221
Accretion during the year	23,400
Change in estimate	(510,321)
Balance, December 31, 2006	132,300
Obligations incurred	1,957,200
Accretion	44,800
Reduction in working interest	(453,400)
Change in estimate	(201,300)
Balance, December 31, 2007	$1,479,600

LOAN PAYABLE

The loan payable to Teck Cominco arose as a result of the Company's lease acquisition activities undertaken on a joint 50:50 basis with Teck Cominco. During 2006 and the first quarter of 2007, UTS and Teck Cominco were successful bidders on several oil sands leases with an aggregate cash purchase price of approximately $159 million, in which UTS holds a 50% interest. UTS and Teck Cominco agreed that Teck Cominco would carry 100% of the land acquisition costs at that time. The Company had an unsecured, non-interest bearing loan payable to Teck Cominco for its 50% interest in these leases of approximately $79 million. The loan had been discounted utilizing an annual interest rate of 6%, and repayment had been assumed to occur at the end of September 2007 instead of the end of September 2008 as initially disclosed. The change in estimation of repayment date occurred as a result of the letter of intent entered into with Teck Cominco in April 2007, whereby Teck Cominco agreed to acquire a 50% working interest in Lease 14 for approximately $200 million. The transaction was initially expected to close in the third quarter of 2007; however, it closed on June 28, 2007. The loan to Teck Cominco was offset against the first instalment of sale proceeds upon closing of the transaction.

Balance, December 31, 2006	$ 63,466,130
Discounted loan advances	8,580,376
Accretion	7,396,134
Payment	(79,442,640)
Balance, December 31, 2007	$ -

ASSET-BACKED COMMERCIAL PAPER IMPAIRMENT

At December 31, 2007, the Company held third party asset-backed commercial paper ("ABCP") with an original cost of $4.30 million and par value upon maturity of $4.35 million. At the time of acquisition, these investments were rated R1 (High) by Dominion Bond Rating Service ("DBRS"), the highest credit rating issued for commercial paper. These investments matured during the third quarter of 2007, but did not settle on maturity as a result of the unprecedented liquidity issues in the ABCP market.

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement regarding ABCP, whereby affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled maturities of the underlying assets. On September 6, 2007, a Pan Canadian Committee (the "Committee") was formed to oversee the proposed restructuring process. On December 23, 2007, the Committee approved an agreement in principle to restructure the ABCP issued by twenty trusts, which includes the investments held by the Company. As a result the Company has reclassified its investment in this paper as a long-term asset. The Company has not been able to access information relating to the assets underlying its investments and has relied upon guidance provided by DBRS and the Committee.

There are no market quotations available for the ABCP investments held by the Company as they have not traded since mid-August. Therefore the Company has estimated the fair value of its investment in ABCP via a discounted cash flow approach. The following factors and assumptions were used in the calculation: maturity over seven years, principle reductions of up to 50% depending upon the nature of the underlying assets as indicated by the Committee and DBRS, restructuring fees, and average discount rate of 5.49%. Based on this calculation, an impairment of $1.2 million has been recognized in these financial statements and the long-term asset is valued at $3.15 million at December 31, 2007. Further changes in the value of these investments could occur as the outcome of the restructuring process unfolds and further information becomes available. The Company's ABCP holdings were not a significant portion of the Company's investment portfolio and therefore, will not affect the Company's liquidity or the Company's business in a significant way.

FINANCIAL INSTRUMENTS

The carrying value of the Company's short-term financial instruments including cash and short term deposits, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of their short-term nature. Refer above for assumptions made and methodology followed in assessing a fair value for the impaired asset-backed commercial paper held by the Company, which is now being represented as a long term investment.

The non-current non-interest bearing loan payable was discounted using a credit adjusted risk free interest rate of 6% and assuming payment in full on September 30, 2007. In 2007, amortization of this discount resulted in $7,396,134 (2006 - $900,629) of interest expense, which has been capitalized to property, plant and equipment.

The non-interest bearing sale proceeds receivable have been discounted using a credit adjusted risk free interest rate of 4.5% and assuming payment in two instalments of $40 million each on June 28, 2008 and 2009. In 2007, amortization of this discount resulted in $1,734,928 (2006 - $Nil) of interest income.

NEW ACCOUNTING PRONOUNCEMENTS

A number of new accounting pronouncements related to financial instruments are effective for the Company on January 1, 2007.

Section 3855, "Financial Instruments-Recognition and Measurement", provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. Initial adoption of this section requires that the Company (i) measure financial assets classified as loans and receivables intended to be held to maturity at their amortized cost; (ii) measure financial assets and liabilities classified as held for trading at fair value with recognition of related gains and losses on measurement included in net income; (iii) measure financial assets classified as available for sale at fair value with recognition of related gains and losses on measurement included in "other comprehensive income", an account discussed in the following brief description of Section 1530, and (iv) recognize all derivative financial instruments at fair value with the gains or losses on those instruments designated as hedges recognized in other comprehensive income, except for ineffective hedges which will be recognized in net income.

Section 1530, "Comprehensive Income" requires an entity to recognize certain unrealized gains and losses in an "other comprehensive income" account, included in shareholders' equity, until such gains and losses are realized and included in net income. This standard requires the introduction of a statement of comprehensive income.

UTS has no hedging instruments, derivative financial instruments, nor does it currently intend to designate any financial assets as available for sale; therefore, the Company expects no adjustments to be recognized through other comprehensive income in 2007.

Effective January 1, 2008, the Company will be required to adopt CICA Handbook accounting standards section 3862-Financial Instruments-Disclosures, section 3863 Financial Instruments-Presentation, section 1535 Capital Disclosures, section 1400 General Standards of Financial Statement Presentation and section 3031 Inventories, which deal with the Company's financial instruments, inventory costing as well as its capital management. UTS is currently assessing the impact of these new standards, which will be incorporated in its financial reporting for the first quarter of 2008.

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by publicly accountable enterprises, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. The full change-over is currently expected to occur for fiscal years beginning on or after January 1, 2011. The Company is commencing assessment of the impact of IFRS on the entity and its financial reporting.

CONTROL CERTIFICATION

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow for timely decisions regarding required disclosures. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation as of the date of this MD&A, that disclosure controls and procedures are effective in providing reasonable assurance that material information is made known to them by others within the Company. A control system can provide only reasonable, not absolute, assurance that its objectives are met and is not expected to prevent or detect all errors or fraud. During the year ended December 31, 2007, the Company has not implemented any significant changes in internal controls over financial reporting or disclosure controls.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and CFO are responsible for the design of internal control procedures over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal controls are not expected to prevent or detect all misstatements due to error or fraud. As is indicative of small companies in general, there are certain weaknesses in the Company's internal controls due primarily to its inability to perform an effective segregation of duties and the lack of existence of in-house expertise in complex accounting and taxation areas due to a small staff contingent. These have been identified as areas in which weaknesses are compensated for via managerial monitoring of processes and via consultation with external experts to assist management as required. The Company currently engages in such practices. Identified weaknesses could result in a more than remote likelihood that a material misstatement would not be prevented or detected by the internal controls over financial reporting. Management and the Board of Directors attempt to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to a remote likelihood of a material misstatement. There have been no changes in the Company's internal controls over financial reporting during fiscal 2007 that has or is likely to materially affect the Company's internal controls over financial reporting.

LIQUIDITY AND FINANCIAL RESOURCES

The Company currently has approximately $340 million in cash and short-term deposits, sufficient financial resources to fund its working capital requirements for its share of development costs of the Fort Hills Project and exploration and drilling on UTS' other lands based on the current Fort Hills Project spend rate and recently revised estimate, to the fourth quarter of 2009. The recent sale of 50% of Lease 14 to Teck Cominco is expected to provide funding for exploration activities occurring outside of the Fort Hills Project, and the recently announced further earn-in of Petro-Canada and Teck Cominco into the Fort Hills Project is expected to provide Fort Hills Project funding to the fourth quarter of 2009. UTS has raised additional equity to secure its $250 million of funding requirement, which transaction closed November 19, 2007, bringing its total contribution for the first $7.5 billion of expenditure under the existing Fort Hills Partnership to $350 million.

UTS posted its 20% Letter of Credit ($2.85 million) with the Alberta government for mine site reclamation. For this particular mine liability the total Letter of Credit required amount is $14.25 million with each Fort Hills Partner's pro-rata share on behalf of the Fort Hills Partnership as follows:

	Fort Hills Partnership Interest	$ Million
Petro-Canada	60%	8.55
Teck Cominco	20%	2.85
UTS	20%	2.85
Total	100%	14.25

UTS posted a further 20% Letter of Credit ($0.94 million) with ATCO Electric Limited for the Fort Hills Bitumen Extraction and Processing Facility Electrical Interconnection. For this particular mine liability the total Letter of Credit required amount is $4.70 million with each Fort Hills Partner's pro-rata share on behalf of the Fort Hills Partnership as follows:

	Fort Hills Partnership Interest	$ Million
Petro-Canada	60%	2.82
Teck Cominco	20%	0.94
UTS	20%	0.94
Total	100%	4.70

This agreement was effective November 30, 2007 and will expire April 1, 2009 with the completion of the construction pertaining to these facilities.

UTS has $4.3 million invested in Coventree asset backed commercial paper and has recorded an impairment on these investments of $1.2 million. UTS has initiated and implemented a very thorough investment policy which is geared to liquidity and protection of its short investment portfolio.

The development of the Fort Hills Project and UTS' lease holdings outside of the Fort Hills Project beyond 2008 will require the Company to continue to fund its working capital requirements, including capital and operating costs of the Fort Hills Project, through new sources. The significant sources of additional funds potentially available to the Company are borrowings in the banking/bond market, sale of other oil sands leases and possibly raising equity capital, if required.

OUTLOOK

The combination of the $1.4 billion earn-in for the Fort Hills Project and approximate $360 million in cash and short-term deposits, provides UTS sufficient financial resources to fund its working capital requirements for its share of development costs of the Fort Hills Project, and delineation/exploration and drilling on UTS' other lands to the fourth quarter of 2009.

The near term milestones of the Fort Hills Project include regulatory approval for the Sturgeon Upgrader, as well as completion of FEED for the Fort Hills Project in the third quarter of 2008. Sanctioning of the Fort Hills Project is expected in the second half of 2008. Between the third quarter of 2008 and the fourth quarter of 2009, UTS will monitor the capital markets for optimal execution of its debt financing requirements. The mine and Upgrader will have a staggered start up, with first bitumen production expected in the fourth quarter of 2011, and first SCO production in the second half of 2012.

For the Equinox Project (Lease 14), the near term milestones includes completion of the terms of reference for EIA in the second half of 2008, followed by completion of the design basis, pilot test program, and environmental impact assessment in the first quarter of 2009. Also in the first quarter of 2009, UTS expects to submit a regulatory application for the Equinox Project. FEED for the Fort Hills Project is to be initiated in the third quarter of 2009, with project sanction expected in the third quarter of 2010.

UTS' delineation milestones for the west side of the Athabasca River include infill drilling for the Frontier Project (Lease 311 Area) completed by the end of the first quarter in 2008. This will be followed by an independent contingent resource estimate in the fourth quarter of 2008, along with the initiation of a detailed mine plan.

With respect to further exploration drilling on the west side of the Athabasca River, UTS will complete drilling on Leases 610, 840 and northern leases by the first quarter of 2008, as well as preliminary drilling on potential in situ leases. An independent mineable resource evaluation and an initial assessment of in situ prospectivity are expected to be complete by the fourth quarter of 2008, respectively.

Lastly, preliminary exploratory drilling on the east side of the Athabasca River will also be completed in the first quarter of 2008.

ALBERTA BUSINESS ENVIRONMENT AND RISK FACTORS

ALBERTA BUSINESS ENVIRONMENT

In its January 2008 Monetary Policy Report, the Bank of Canada stated the Canadian economy continues to operate above its production capacity, despite a slowing of growth in the fourth quarter of 2007. The Bank projects average annual economic growth of 1.8 per cent in 2008 and 2.8 per cent in 2009. In its recent quarterly forecast, the Conference Board of Canada expects a strong domestic economy coupled with a lack of inflation will keep monetary policy neutral in 2008. The Conference Board further states that specifically in Alberta, record-high oil prices will boost overall energy investment even with weaker natural gas drilling and Alberta's new royalty regime.

The Conference Board forecasts Alberta is to advance by a slower but still solid average 3.3% over the next two years, hampered by a plunge in drilling activity, but offset by the strength in Alberta's service sector.

The current pace of development of the oil sands is creating numerous economic and social stresses throughout Alberta and across Canada, prompting calls for more managed development. So far, the Alberta government has responded with a funding announcement for $396 million in February, 2007 for increased spending on health care, municipal infrastructure and affordable housing in the Fort McMurray area. The government has also pledged another $420 million in February, 2008 for improved intersections on Highway 63, school upgrades, wastewater treatment and the local landfill.

The key factors driving investment into Alberta's oil and gas development, including oil sands, are the prices for oil and natural gas. While global oil prices are at record high levels, North American natural gas prices have softened, particularly in relation to the oil price. Furthermore, the Alberta government has adjusted its royalty regime to capture a greater share of the overall revenues. These changes have negatively impacted the natural gas sector more negatively than either conventional oil or oil sands. The combination of high oil prices and a relatively modest impact of the new royalty system on the oil sands sector is resulting in a continued strong pace of oil sands development.

The current pace of oil sands development, when combined with rapid expansion in the global economy, is maintaining continued upward pressure on capital costs for new oil sands projects although the pace of price escalation appears to have modified. These increases reflect higher international commodity prices, a shortage of engineering and skilled construction labour resources, and fabrication shop capacity in Alberta. Industry and governments continue to address these challenges with a number of initiatives.

Following a change in leadership early in 2007, the Alberta government has become more aggressive in responding to voters' concerns with the socio-economic and environmental impacts resulting from oil sands development. The above noted increase in royalties payable to the Alberta government was a key response to the public views associated with oil sands development. UTS believes that the impact of these changes to the fiscal environment on its business plans can be managed.

Recent public opinion polls are indicating that environmental protection, including climate change, has moved to the top of Canadian's list of concerns for government action. The current Conservative minority government is responding to these pressures with new initiatives to address environmental concerns, including urban smog, while cautioning that it will not compromise strong economic growth for the sake of an unrealistic attempt to meet the greenhouse emission goals associated with the Kyoto Accord.

The Alberta government is also responding to these growing concerns over the impact of oil sands development on the natural environment, not only in northeastern Alberta, but increasingly to the north and east of Alberta. It has established a new oil sands environmental group to address these

concerns and find new ways to address the cumulative environmental impacts of oil sands development and help to address the growing international concern related to the impact of oil sands development. This includes growing resistance from refiners in the key US market to accept what are considered "dirty" crude oil supplies.

While these initiatives may impact the cost of oil sands development and hence the availability of financing for such developments, the government continues to stress that it recognizes the importance for continued development of this world class resource.

ROYALTY REVIEW

Alberta's new oil and gas royalty regime was presented on October 25, 2007. The major changes pertaining to the oil sands royalties are summarized in the following table.

Alberta Oil Sands Royalties	Current Bitumen Royalties	New Bitumen Royalties as of January 1, 2009
Pre-payout (% of gross revenue)	1%	Sliding scale of 1% up to WTI C$55/bbl rising to a maximum of 9% @ WTI C$120/bbl
Post-payout (% of net revenue)	25%	Sliding scale of 25% up to WTI C$55/bbl rising to a maximum of 40% @ WTI C$120/bbl

It should be noted that not all the details surrounding the exact mechanisms were released, most specifically the Alberta government wishes to finalize two other key valuation drivers for the oil sands royalties by January 1, 2009, specifically:

1. the bitumen valuation methodology; and

2. potential upgrader tax credits

Our initial evaluation (excluding any potential benefits from a possible Upgrader tax credit and assuming the bitumen valuation of 50% of WTI) indicates the economic impact of these royalty changes is relatively small; specifically at WTI oil prices of $60/bbl and $80/bbl these royalty changes reduce the internal rate of return by about 0.2% and 0.4% respectively.

RISK FACTORS - FORT HILLS PROJECT

UTS' current value is based to a large extent, on the potential successful development and operation of the Fort Hills Project. Any events that negatively impact the development schedule or project economics need to be considered risk factors. These include oil prices, further escalation in development costs, possible changes to the fiscal regime, and possible changes to environmental regulations or delays in receiving regulatory approvals.

The Government of Canada has concluded that Canada cannot meet its commitment to the Kyoto Protocol and is currently developing an alternative strategy for reducing Canada's greenhouse gas emissions.

In June 2007, the Alberta Government passed its *Climate Change and Emissions Management Act*. The accompanying Specified Gas Emitters Regulation, that applies to companies that emit more than 100,000 tonnes of greenhouse gases per year (equivalent to a 5,000 bbls/day oil sands operation), requires such companies to reduce their greenhouse gas emission intensity by 12% over a six year period beginning July 2007. For new and upcoming projects, the regulations will be phased in, and not start until the fourth year of production for these projects, once an emissions baseline is determined. Year three of production will become the baseline, and the 12% reduction target will be phased in at 2% per year.

In the event that a company is not able to meet the targets set forth in the *Climate Change and Emissions Management Act*, companies have two alternatives:

- pay $15 per tonne for every tonne of GHG emissions above the 12% target; or
- invest in Alberta-based projects that reduce or offset emissions on their behalf.

UTS has factored the costs of meeting this requirement into its financial and economic models. It is also assessing the costs of ensuring that its oil sands projects are CO_2 capture ready and the associated costs for sequestering such greenhouse gases.

Alberta government policy is also moving toward establishing limits on cumulative environmental impacts by setting caps on water use and air emissions. The Industrial Heartland region of Sturgeon County was the first region to have this policy implemented and the government is considering adopting a similar policy for the Fort McMurray Region.

The rapid pace of oil sands development is also impacting the capacity of the provincial government regulators to assess and approve development applications. The regulators are pursuing a number of options in an attempt to improve their response times. Current approval times have been built into the Fort Hills Project's development schedule, but any delay in the time to receive regulatory approvals, either for the Upgrader, or for the amendments to the currently approved Fort Hills Project mine, could delay project sanction and the start of construction. PCOSI is monitoring this situation closely.

The risks to obtaining approval of the Upgrader are not considered to be major risks. The Upgrader is being designed so it will meet all of the emissions guidelines and regulations of the province. The only major risk is considered to be that related to the schedule as outlined above.

It is also recognized that long term storage of coke on site would be undesirable to stakeholders and the Fort Hills Partnership will therefore work to secure a coke disposition solution that eliminates this risk.

Any delays in the development of the Fort Hills Project, whether as a result of delay in receiving regulatory approval, engineering design changes, project sanction or construction by the Fort Hills Partnership could increase the costs for development of the Fort Hills Project and may require additional financing.

As contained in the section "Oil Sands Lease Holdings", retention of Fort Hills Project Leases T05 and T52 are subject to certain conditions including achieving significant production of bitumen during 2011. The current plan of development is aligned with these conditions, and current expectations are that they will be met.

Capital requirements are subject to capital market risks, primarily the availability and cost of capital. UTS is somewhat insulated from the current turmoil in financial markets given that it has secured its share of the Fort Hills Project costs through the end of 2009. While UTS expects that it can access most of its remaining financial requirements for completing Phase I of the Fort Hills Project through the debt markets, there can be no assurance that such funds will be available on acceptable terms. UTS' failure to provide funding would result in a corresponding reduction in its ownership interest. In the event of non-payment by UTS of its share of costs and expenses for the Fort Hills Project, the non-defaulting partners will each have the option, after a cure period, to (i) purchase all or part of the defaulting partners interest for 80% of the total costs paid and accruable to the date of default, or (ii) after 80% of the total costs of the initial phase of development of the Fort Hills Project have been incurred, the purchase of all or part of the defaulting partners interest in the Fort Hills Project may be reduced based upon an established formula.

RISK FACTORS - UTS EXPLORATION AREAS

The leases acquired jointly by UTS and Teck Cominco are located north of what has been considered to be the known mineable resources within the Athabasca Oil Sands Area. Consequently, as a result of the limited well control in this area, the exploration risks associated with these leases are higher than those historically associated with oil sands opportunities, and the value of these leases will be dependent on discovering oil sands deposits with commercial potential. However, the initial drilling results have been promising in this regard. Given the fact that UTS has not completed its drilling and analysis of core holes in respect of its various exploration leases, any resource estimates may vary from actual in place resources and any such variation may be material. These uncertainties will be reduced as additional core holes are drilled and evaluated and the resource estimates are refined.

SUBSEQUENT EVENTS

On March 10, 2008 the Federal Government released a draft set of regulations to address greenhouse gas emissions with an expectation that, after consultation, final regulations will be in place by January 1, 2010. The regulations will impose cleaner fuel standards for oil sands projects. There will most certainly be a financial impact resulting from these new regulations on UTS' future projects, including the Fort Hills Project, however the extent of that impact is not yet known.

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of UTS Energy Corporation as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 12, 2008

UTS ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

As at December 31,	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	**$360,176,078**	$99,097,318
Accounts receivable and accrued receivables	**6,913,183**	4,110,791
Current portion of sale proceeds receivable (note 2)	**39,126,983**	-
	406,216,244	103,208,109
Property, Plant and Equipment (note 2)	**399,392,161**	341,718,199
Sale Proceeds Receivable (note 2)	**37,405,400**	-
Other Assets (note 3)	**3,150,000**	-
	$846,163,805	$444,926,308
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 16,624,645**	$ 7,553,454
Corporate income taxes payable	**6,350,000**	-
	22,974,645	7,553,454
Loan Payable (note 4)	**-**	63,466,130
Future Income Taxes (note 5)	**88,117,900**	52,841,541
Asset Retirement Obligation (note 6)	**1,479,600**	132,300
	112,572,145	123,993,425
Shareholders' Equity		
Share capital (note 7)	**587,487,269**	324,366,522
Contributed surplus (note 7)	**20,260,909**	8,094,475
Retained earnings (deficit)	**125,843,482**	(11,528,114)
	733,591,660	320,932,883
Commitments (note 11)		
Contingencies (note 12)		
	$846,163,805	$444,926,308

see accompanying notes to consolidated financial statements

On behalf of the Board:

(signed) "Bruce C. Galloway"
Director

(signed) "Douglas D. Baldwin"
Director

UTS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Year ended December 31,	2007	2006
Interest	**$ 7,370,954**	$ 3,771,141
Gain on disposition of oil sands lease interests (note 2)	**184,203,357**	-
	191,574,311	3,771,141
Expenses		
General and administrative	**14,690,865**	10,918,456
Amortization	**205,598**	2,400,032
Change in fair value of third party asset-backed commercial paper (note 3)	**1,200,000**	-
	16,096,463	13,318,488
Income (loss) before income taxes	**175,477,848**	(9,547,347)
Income taxes (note 5)		
Current	**6,350,000**	6,270
Future (reduction)	**31,756,252**	(16,029,772)
	38,106,252	(16,023,502)
Net income and other comprehensive income	**137,371,596**	6,476,155
Deficit, beginning of year	**(11,528,114)**	(18,004,269)
Retained Earnings (deficit), end of year	**$125,843,482**	$ (11,528,114)
Net income (loss) per share - basic	**$0.32**	$0.02
- diluted	**$0.31**	$0.02
Weighted average common shares outstanding - basic	**432,704,416**	424,911,600
- diluted	**437,161,954**	431,544,729

see accompanying notes to consolidated financial statements.

UTS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

Year ended December 31,	2007	2006
Cash Provided by (Used in):		
Operations		
Net income from operations	**$ 137,371,596**	$ 6,476,155
Items not involving cash:		
Future income tax (reduction)	**31,756,252**	(16,029,772)
Stock-based compensation expense	**7,698,020**	3,929,228
Impairment in value of asset-backed commercial paper	**1,200,000**	-
Amortization	**205,598**	2,400,032
Gain on disposition of oil sands lease interests	**(184,203,357)**	-
Accretion of sale proceeds receivable	**(1,734,928)**	-
	(7,706,819)	(3,224,357)
Change in non-cash working capital	**9,125,796**	(456,314)
	1,418,977	(3,680,671)
Investing		
Net additions to property, plant and equipment	**(45,368,130)**	(21,048,298)
Net proceeds received on disposition of oil sands lease interests	**41,333,960**	-
Investment in other assets	**(4,350,000)**	-
Change in non-cash working capital	**3,625,763**	4,273,535
	(4,758,407)	(16,774,763)
Financing		
Issue of common shares	**264,418,190**	15,030,727
Increase (decrease) in cash and short-term deposits	**261,078,760**	(5,424,707)
Cash and cash equivalents, beginning of year	**99,097,318**	104,522,025
Cash and cash equivalents, end of year	**$ 360,176,078**	$99,097,318
Income taxes paid	**$ -**	$ 6,270

see accompanying notes to consolidated financial statements

UTS Energy Corporation (the "Company" or "UTS") is a development stage enterprise whose primary activity is the development of its interests in the Fort Hills Oil Sands Project ("Fort Hills Project"), which commenced development in May 1998. UTS does not have any production revenue and will not until bitumen production begins at the Fort Hills Project, which is expected to occur in 2011. The purpose of the Fort Hills Project is to develop, mine, extract and sell the recoverable clean bitumen from certain oil sands deposits underlying approximately 46,698 acres of the contiguous oil sands Leases T05, 008 and T52 (the "Fort Hills Project Leases") in Alberta's Athabasca oil sands region approximately 90 kilometres north of Fort McMurray. Government regulators have granted the major permits and approvals required to proceed with construction and development of facilities for the production of up to 235,000 barrels per day or 190,000 barrels per day annualized of clean bitumen from these leases. These permits and approvals will require amendment to reflect the Company's proposed plan of development that is a modification to that contemplated and authorized by the existing regulatory approvals, and additional permits and approvals will be required to proceed with development including the upgrading of bitumen to synthetic crude oil. During the year ended December 31, 2007, the Fort Hills Partnership acquired Lease 634, comprising 1,280 acres. Leases 437, and 438, comprising 13,120 acres, located northeast of the Fort Hills Project were acquired in 2006.

Beyond the Fort Hills Project, UTS is expanding the scope of its opportunities through a land acquisition program, exploration, and continued evaluation of the development potential of its other oil sands leases. In addition to its 20% interest in the Fort Hills Project, UTS also has a 50% working interest in oil sands Lease 14 comprising 7,147 acres and a 50% working interest in Lease 311, and three surrounding leases, Leases 468, 470 and 477 comprising 26,880 acres. All of these leases are located on the west side of the Athabasca River north of the Fort Hills Project. UTS has acquired interests in seventeen additional leases encompassing an area totalling 250,880 acres which are held jointly with Teck Cominco Ltd. ("Teck Cominco") on a 50/50 working interest basis.

1. Significant Accounting Policies

a) Basis of Presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company, its 20% interest in the Fort Hills Energy Limited Partnership (the "Fort Hills Partnership") and its 50% interest in the joint ventures with Teck Cominco. Refer to Note 11 for further discussion regarding the Fort Hills Partnership.

b) Financial Instruments

On January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook accounting standards regarding financial instruments (sections 3855 and 3861), other comprehensive income (section 1530), equity (section 3251) and hedges (section 3865). These standards require changes in accounting for financial instruments, hedges and the concept of comprehensive income which is a separate component of shareholders' equity. These standards have been adopted retroactively without restatement.

Financial instruments are required to be classified in one of five ways: (i) held for trading; (ii) held to maturity; (iii) loans and receivables; (iv) available-for-sale; or (v) other financial liabilities. The Company's cash and short term deposits are considered held to maturity and the values they are carried at approximate their fair values due to their short term nature. Other assets, comprised of asset-backed commercial paper held by the Company, are considered held to maturity, but are carried at estimated fair value due to impairment. Accounts receivable, accounts payable and

related accruals are carried at approximate fair value due also to their short term nature. The sale proceeds receivable from Teck Cominco and the loan payable to Teck Cominco which was repaid in full during the year were loans and receivables initially recognized at fair value and are subsequently presented at amortized cost using the effective interest method. The Company does not currently participate in any hedging activities.

Other comprehensive income represents items such as the change in equity arising from unrealized gains and losses from financial instruments designated as available-for-sale and changes in fair market value of derivatives designated as hedges, and is presented as a separate component of shareholders' equity on the balance sheet. The Company does not have any other comprehensive income.

c) Property, Plant, and Equipment

The Company has adopted the Canadian Accounting Standard for Enterprises in the Development Stage. All direct costs relating to the development of the Fort Hills Project to date, including capital expenditures and pre-operating costs are capitalized, including the cost of the acquisition of leases, exploration and development, interest and administrative costs that are directly related to development activities. When production begins, these capitalized costs will be amortized following the unit-of-production method based on proved reserves.

The carrying values of property, plant and equipment are not intended to reflect their future value. In particular, the future value of the property, plant and equipment of the Fort Hills Project depends on the start-up of commercial production, the ability of the Company to obtain financing and the future profitability of the Fort Hills Project. Accordingly, property, plant and equipment are assessed in each reporting period to determine if there are events or circumstances that would indicate it is unlikely such costs will be recovered in the future. If there are costs that are considered unlikely to be recovered, they are charged to earnings.

Amortization of property, plant and equipment of the Fort Hills Project will be provided following the unit-of-production method based on proved reserves when production begins. Office equipment and leaseholds are depreciated on a straight-line basis over the estimated service lives of the assets.

d) Asset Retirement Obligations

The Company accounts for its obligations associated with the retirement of long-lived assets and the related asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction and development and use of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying value of the associated asset. The liability is accreted at the end of each period through charges to the carrying value of the associated asset if in a pre-operating stage, or expensed after the property has been developed and put into production.

e) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities.

Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

f) Stock-Based Compensation

The Company accounts for stock options, share appreciation rights, and deferred share units granted subsequent to January 1, 2002 utilizing the fair value method to calculate a fair value of the stock award granted and recording that fair value as compensation expense over the vesting period of the award with a corresponding increase in contributed surplus. Upon the exercise of these stock options, share appreciation rights and deferred share units, the consideration received by the Company and the contributed surplus associated with the award are credited to share capital.

g) Per Share Amounts

The Company reports per share amounts using the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, dilutive instruments create an impact on the dilution calculation where the current value of the dilutive instrument exceeds its exercise price and the Company has positive earnings.

h) Flow Through Shares

Share capital includes flow through shares issued pursuant to certain provisions of the Income Tax Act (Canada), which provide that where share issuance proceeds are used to fund exploration and development expenditures, the related income tax deductions may be renounced to the subscribers for those shares. Future income taxes are recorded and share capital is reduced by the tax effect of the related expenditures when the expenditures are renounced.

i) Cash and Cash Equivalents

Cash and cash equivalents comprise deposits with banks and investments with initial maturities of three months or less.

j) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates as future confirming events occur. Significant estimates used in the preparation of the financial statements include, but are not limited to, assumptions surrounding the valuation of sale proceeds receivable, asset retirement obligations, future income taxes, impairment of asset-backed commercial paper, and stock-based compensation.

k) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. Property, Plant and Equipment

December 31,	2007	2006
Fort Hills Project	**$284,660,199**	$264,189,485
Other leases and exploration / development costs	**114,603,722**	77,289,512
Office equipment and leaseholds	**681,894**	662,803
	399,945,815	342,141,800
Less: Accumulated amortization	**553,654**	423,601
Net book value	**399,392,161**	$341,718,199

During the year ended December 31, 2007, $11,053,345 (2006 - $4,388,449) of general and administrative expenses were capitalized to property, plant & equipment, including $4,737,214 (2006 - $1,928,788) of stock-based compensation.

During the year ended December 31, 2007, the Company disposed of 50% of its interest in Lease 14 to Teck Cominco and 100% of Lease 634 to the Fort Hills Energy Limited Partnership.

(a) Lease 14:

On September 5, 2005, a letter of intent was signed by UTS and Teck Cominco, setting out in broad terms the basis upon which UTS would enter into an agreement to grant Teck Cominco a right of first offer at fair market value for up to a 50% working interest in Lease 14, conditional upon full delineation of the lease and the determination, both at the discretion of UTS, that the best use of Lease 14 would be to develop it as a satellite mine to the Fort Hills Project, subject to agreement of the Fort Hills Partnership. This agreement was revised with the signing of the Lease 311 letter agreement between UTS and Teck Cominco to remove the condition that the best use of Lease 14 be to develop it as a satellite mine to the Fort Hills Project, thereby allowing Teck Cominco the right to participate for up to 50% of Lease 14 at fair market value conditional upon full delineation of Lease 14.

On April 19, 2007, the Company announced that it had entered into a letter of intent under which Teck Cominco would acquire a 50% working interest in Lease 14 for approximately $200 million. The price was based on a value of $1.00 per barrel and an assumed bitumen resource of approximately 400 million barrels. The transaction provided for a final adjustment to take place once the full analysis on Lease 14 drilling results was complete which occurred in the fourth quarter of 2007. A provision existed for the sale price to be adjusted up or down by a maximum of $50 million based on a resource estimate to reflect a maximum of 500 million barrels and a minimum of 300 million barrels at $1.00 per barrel. Subject to this potential adjustment, this transaction closed on June 28, 2007. As announced by the Company on December 3, 2007, the third party resource estimate fixed the transaction volume at 400 million barrels. The sale price is to be received in three instalments as follows:

(i) 60% of the base price of $200 million, or $120 million, less the loan balance of $79.4 million owing by UTS to Teck Cominco (note 4). This payment, totaling $40.6 million, was received on the closing date of June 28, 2007;

(ii) 50% of the remaining adjusted purchase price, or $40 million, on June 28, 2008; and

(iii) 50% of the remaining adjusted purchase price, or $40 million, on June 28, 2009.

The final two instalments of proceeds have been discounted by $5.2 million at a rate of 4.5% over the time remaining to their respective due dates. Accretion of the sale proceeds receivable has been recognized as follows and is included with interest income on the statement of operations.

Discount to be accreted at June 28, 2007	$5,202,545
Accretion	(1,734,928)
Discount remaining to be accreted at December 31, 2007	$3,467,617

As general and continuing collateral security for the due payment of the adjusted purchase price, Teck Cominco has granted to the Company a security interest in the purchaser's right, title and interest in and to the assets acquired.

The discounted proceeds on the disposition were therefore $194,797,455 and the resultant gain on disposition was $184,215,355.

(b) Lease 634:

On June 21, 2007, a conveyance agreement was executed between Fort Hills Energy Corporation, a related party, and the Company, the purpose of which was to transfer Lease 634 into Fort Hills Energy Corporation for proceeds of $725,000, which approximated the fair value of the lease. The net book value of the lease was $720,558, resulting in a gain on disposition of $4,442.

3. Asset-Backed Commercial Paper Impairment

At December 31, 2007, the Company held third party asset-backed commercial paper ("ABCP") with an original cost of $4.30 million and par value upon maturity of $4.35 million. At the time of acquisition, these investments were rated R1 (High) by Dominion Bond Rating Service ("DBRS"), the highest credit rating issued for commercial paper. These investments matured during the third quarter of 2007, but did not settle on maturity as a result of the unprecedented liquidity issues in the ABCP market.

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement regarding ABCP, whereby affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled maturities of the underlying assets. On September 6, 2007, a Pan Canadian Committee (the "Committee") was formed to oversee the proposed restructuring process. On December 23, 2007, the Committee approved an agreement in principle to restructure the ABCP issued by twenty trusts, which includes the investments held by the Company. As a result, the Company has reclassified its investment in this paper as a long-term asset. The Company has not been able to access information relating to the assets underlying its investments and has relied upon guidance provided by DBRS and the Committee. There are no market quotations available for the ABCP investments held by the Company as they have not traded since mid-August. Therefore, the Company has estimated the fair value of its investment in ABCP via a discounted cash flow approach. The following factors and assumptions were used in the calculation: maturity over 7 years, principal reductions of up to 50% depending upon the nature of the underlying assets as indicated by the Committee and DBRS, restructuring fees, and average discount rate of 5.49%. Based on this calculation, an impairment of $1.2 million has been recognized in these financial statements and the long-term asset is valued at $3.15 million at December 31, 2007. Further changes in the value of these investments could occur as the outcome of the restructuring process unfolds and further information becomes available. The Company's ABCP holdings were not a

significant portion of the Company's investment portfolio and therefore, will not affect the Company's liquidity or the Company's business in a significant way.

4. Loan Payable

On July 13, 2006, a letter of agreement was signed between UTS and Teck Cominco, setting out the basis upon which the two companies would work together with a view to making one or more joint bids for additional oil sands leases relating to certain lands in the Athabasca oil sands region and the basis on which any such leases, together with previously acquired Lease 311, would be jointly owned and managed. Each party has a 50% working interest in the leases jointly acquired under the terms of this agreement and the parties also agreed that Teck Cominco would carry 100% of the land acquisition costs for both Teck Cominco and UTS. The 50% of the purchase amount for UTS' 50% share of the lands would be reimbursed at the time Teck Cominco chose to exercise its option to participate on Lease 14. If Teck Cominco chose to exercise its option and acquire up to 50% of Lease 14 at fair market value, then the land acquisition costs would be set off against that agreed value. Alternatively, if Teck Cominco chose not to exercise its right to enter into Lease 14, then UTS would pay Teck Cominco the funds previously forwarded for the land acquisitions 180 days from the date of such election. The option was to expire one year after full delineation of Lease 14. The loan had been discounted utilizing an annual interest rate of 6% and assuming repayment at the end of September 2007. The loan payable was offset against the first instalment of proceeds received on June 28, 2007 upon the completion of Teck Cominco's exercise of its option to participate on Lease 14 (note 2).

During the year ended December 31, 2006, UTS and Teck Cominco jointly acquired fourteen leases encompassing an area totalling 41,984 hectares for bid amounts totalling approximately $141 million, of which UTS' 50% share (undiscounted) approximates $70.5 million. During the year ended December 31, 2007, UTS and Teck Cominco jointly acquired four additional leases under this arrangement encompassing an area totalling 7,296 hectares for bid amounts totalling approximately $18 million, of which UTS' 50% share (undiscounted) approximates $9 million.

Balance, December 31, 2005	$ -
Discounted loan advances	62,565,501
Accretion	900,629
Balance, December 31, 2006	63,466,130
Discounted loan advances	8,580,376
Accretion	7,396,134
Payment (note 2(a))	(79,442,640)
Balance, December 31, 2007	$ -

5. Income Taxes

(a) The provision for income tax expense differs from that which would be expected by applying the combined statutory rates. A reconciliation of the difference is as follows:

Year ended December 31,	**2007**	2006
Basic rate	**32.12%**	34%
Computed income tax (recovery) at basic rate	**$56,363,485**	$(3,293,835)
Increase (decrease) resulting from:		
Non-deductible charges	**2,488,435**	1,371,756
Resource allowance	**-**	274,195
Decrease in valuation allowance	**(1,930,880)**	(7,251,120)
Adjustment to reflect change in tax rates and other	**(18,814,788)**	(7,130,768)
Large corporations' tax	**-**	6,270
	$38,106,252	$(16,023,502)

(b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are as follows:

December 31,	2007	2006
Future tax assets:		
Net operating loss carryforwards	$ -	$ 7,659,933
Share issue costs and other	3,966,385	1,814.510
Total gross future tax assets	3,966,385	9,474,443
Less valuation allowance	-	1,930,880
Net future tax assets	3,966,385	7,543,563
Future tax liabilities:		
Oil sands lease investments	92,084,285	60,385,104
Total gross future tax liabilities	92,084,285	60,385,104
Net future tax liability	$ 88,117,900	$ 52,841,541

6. Asset Retirement Obligation

The Operator of the Fort Hills Project, Petro-Canada Oil Sands Inc. (a subsidiary of Petro-Canada), has provided a revised cost estimate for the eventual site restoration of the Fort Hills Project's current disturbances. The undiscounted, inflated future cash flow estimate has been revised upward to $47.3 million from $6.6 million. Using assumptions that estimate the life of the Fort Hills Project to be 40 years, an inflation factor of 2.5% and a credit adjusted risk-free interest rate discount factor of 6.3% (2006 - 7%), the fair value of the Company's 20% share (2006 - 30% share) of the site restoration costs has been estimated as follows:

Balance, December 30, 2005	$ 619,221
Accretion during the year	23,400
Change in estimate	(510,321)
Balance, December 31, 2006	132,300
Obligations incurred	1,957,200
Accretion	44,800
Reduction in working interest	(453,400)
Change in estimate	(201,300)
Balance, December 31, 2007	$1,479,600

7. Share Capital

a) Authorized:

Unlimited number of common shares without nominal or par value.

b) Issued:

Changes in capital stock are as follows:

	Number of Shares	Consideration
Issued, December 31, 2005	424,419,700	$311,512,730
Issue of flow-through shares, net of issue costs (net of $268,427 tax effect) - see(i)	2,496,000	15,043,188
Issued on exercise of share purchase options	391,373	337,457
Transfer from contributed surplus on exercise of share purchase options	-	229,987
Tax effect of flow-through share offering	-	(2,756,840)
Issued, December 31, 2006	427,307,073	324,366,522
Issue of flow-through shares and common shares, net of issue costs (net of $2,825,000 tax effect) - see (ii)	44,500,000	267,024,780
Issued on exercise of share purchase options	448,334	351,167
Transfer from contributed surplus on exercise of share purchase options	-	268,800
Tax effect of flow-through share offering	-	(4,524,000)
Issued, December 31, 2007	472,255,407	$587,487,269

(i) On December 1, 2006, the Company completed a private placement of 2,496,000 common shares on a flow-through basis at $6.25 per share for gross proceeds of $15.6 million and net proceeds of $15 million after direct expenses, the gross proceeds of which have been spent on qualifying expenditures by December 31, 2007.

(ii) On November 19, 2007, the Company completed a public offering on a bought deal basis of 41.8 million common shares at a price of $6.10 per share and 2.7 million common shares issued on a flow-through basis at a price of $7.60 per share, for total gross proceeds of $275.5 million and net proceeds of $264.2 million after direct expenses. The gross proceeds of the flow through share offering of $20.5 million must be spent on qualifying exploration expenditures by December 31, 2008.

c) Contributed Surplus

The following table reconciles contributed surplus for the years ended December 31, 2007 and 2006.

Balance, December 31, 2005	$2,466,446
Stock-based compensation expense	3,929,228
Stock-based compensation capitalized to property, plant and equipment	1,928,788
Exercise of share purchase options previously recognized	(229,987)
Balance, December 31, 2006	$8,094,475
Stock-based compensation expense	7,698,020
Stock-based compensation capitalized to property, plant and equipment	4,737,214
Exercise of share purchase options previously recognized	(268,800)
Balance, December 31, 2007	$20,260,909

d) Shareholder Rights Plan

On February 24, 2005, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Plan"). The Plan was confirmed by the Company's shareholders at the Annual and Special Meeting of shareholders held on May 26, 2005.

8. Stock-based Compensation

The Company uses the fair value method to calculate a fair value for stock-based compensation and records that fair value as an expense over the vesting period of the award. The fair value of each award granted since January 1, 2002 under the Company's Incentive Stock Option Plan ("Option Plan"), Share Appreciation Rights Plan ("SAR Plan") and Deferred Share Unit Plan ("DSU Plan") is estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions: risk free interest rates ranging from 3.65% to 4.43% (2006 – 3.76% to 4.17%), expected lives of 4 years (2006 – 4-5 years), and estimated volatility ranging from 57% to 61% (2006 – 62% to 94%). This fair value is amortized over the vesting period of the award. The weighted average fair value of stock options ("options") granted during the year was $2.51 (2006 - $2.72) and the weighted average fair value of deferred share units ("DSUs") granted during the year was $5.14 (2006 - $4.75). No share appreciation rights ("SARs") were granted during the year. The weighted average fair value of SARs granted during 2006 was $3.78. The following amounts have been recognized as stock-based compensation cost:

Year ended December 31,	**2007**	2006
Option Plan	**$9,200,990**	$4,305,848
SAR Plan	**228,192**	701,688
DSU Plan	**3,006,052**	850,480
	12,435,234	5,858,016
Capitalized to Property, Plant and Equipment	**(4,737,214)**	(1,928,788)
	$7,698,020	$3,929,228

a) Incentive Stock Option Plan

The Company has an Option Plan under which it may grant options to officers and employees. The shareholders of the Company have approved the maximum number of common shares which may be issued pursuant to the Option Plan of 30 million common shares. The exercise price of each option is not less than the market price of the Company's common shares on the last trading day preceding the grant, and an option's maximum term is 10 years. The options may be surrendered by the holder with the consent of the Company for common shares with a value equal to the capital appreciation inherent in the option surrendered. A maximum of one-third of such options granted pursuant to the Option Plan shall be exercisable on each of the first, second and third anniversaries of the date of grant until expiry. The following activity occurred during the years ended December 31, 2007 and 2006:

	Range of Exercise Price	Weighted Average Exercise Price	Options Outstanding	Options Exercisable
Outstanding, December 31, 2005	$0.30 - 4.57	$1.28	8,779,300	2,910,667
Granted	4.12 - 6.53	5.35	5,481,250	
Exercised	0.30 - 2.05	0.86	(391,373)	
Forfeited	2.52	2.52	(8,500)	
Outstanding, December 31, 2006	0.30 - 6.53	2.90	13,860,677	5,021,224
Granted	4.47 - 6.15	5.11	4,545,300	
Exercised	0.30 - 0.80	0.78	(448,334)	
Forfeited	0.30 - 5.10	1.05	(599,884)	
Outstanding, December 31, 2007	$0.30 - 6.53	$3.59	17,357,759	8,441,391

The following table summarizes information concerning options outstanding at December 31, 2007:

	Total Options Outstanding			Exercisable Options	
Range of Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Less than $1.00	4,128,959	6.63	$0.83	4,022,293	$0.82
$1.01 - $4.00	2,708,200	4.13	1.54	2.256,465	1.53
$4.01 - $5.00	3,115,500	8.74	4.15	1,191,033	4.17
Greater than $5.00	7,405,100	9.00	5.63	971,600	6.42
	17,357,759	7.63	$3.59	8,441,391	$2.13

b) Share Appreciation Rights Plan

The Company has a SAR Plan under which it may grant SARs to non-executive directors. The shareholders of the Company have approved the maximum number of common shares which may be issued pursuant to the SAR Plan of 3 million common shares. The exercise price of each right is not to be less than the market price of the Company's common shares on the last trading day preceding the grant and a right's maximum term is 10 years. The rights may be surrendered or exchanged by the holder with the consent of the Company for common shares with a value equal to the capital appreciation inherent in the right surrendered or exchanged. Rights granted pursuant to the SAR Plan shall be exercisable commencing not earlier than the first anniversary of grant. The following activity occurred during the years ended December 31, 2007and 2006:

	Range of Exercise Price	Weighted Average Exercise Price	SARs Outstanding	SARs Exercisable
Outstanding, December 31, 2005	$0.30 - 4.57	$0.88	926,819	810,614
Granted	4.60 - 7.42	7.12	236,498	
Outstanding, December 31, 2006 and 2007	$0.30 - 7.42	$2.15	1,163,317	1,163,317

The following table summarizes information concerning share appreciation rights outstanding at December 31, 2007:

	Total SARs Outstanding			Exercisable SARs	
Range of Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Less than $0.81	412,282	5.69	$0.42	412,282	$0.42
$0.81 - $1.00	105,265	7.02	0.95	105,265	0.95
$1.01 - $2.00	398,332	3.48	1.24	398,332	1.24
Greater than $2.00	247,438	8.24	7.01	247,438	7.01
	1,163,317	5.60	$2.15	1,163,317	$2.15

c) Deferred Share Unit Plan

The Company has a DSU Plan under which it may DSUs to non-executive directors and selected employees. The maximum number of deferred share units available for issuance under the Deferred Share Unit Plan is 2.5 million DSUs. Under the DSU Plan, non-executive directors can elect to receive a portion of their retainer fees in DSUs and selected employees can elect to receive up to 100% of their annual performance bonus in DSUs. Such elections must be made in advance of the determination of bonuses in the case of selected employees, and prior to the year in which the non-executive directors' retainers will be earned in accordance with plan provisions. The DSU Plan also provides the Governance, Compensation and Nominating Committee the authority to make discretionary grants of DSUs to non-executive directors as an additional component of their compensation and to selected employees as part of their annual remuneration. Once a non-executive director or selected employee ceases employment, by way of termination, resignation, retirement, disability or death, the Company can, in its sole discretion, either settle the obligation in cash equal to the number of DSUs held by the person multiplied by the previous five day weighted average trading price of the Company's common shares, or in common shares on a one for one basis for each DSU held by the person. DSUs issued pursuant to the DSU Plan, together with all of the Company's other previously established security based compensation arrangements, may not result at any time in the aggregate number of common shares reserved for issuance from the Company's treasury to insiders exceeding 10% of the outstanding issue or the issuance to insiders from the Company's treasury, within a one year period, of an aggregate number of common shares exceeding 10% of the outstanding issue. The DSU Plan is an unfunded plan and any obligations of the Company under the DSU Plan are unsecured. Compensation expense of $3,006,053 relating to these DSUs has been recognized to December 31, 2007 (2006 - $850,480), none of which have been redeemed to December 31, 2007. The following activity occurred during the years ended December 31, 2006 and 2007:

	Number of DSU's Granted
Granted	179,000
Outstanding, December 31, 2006	179,000
Granted	584,875
Outstanding, December 31, 2007	763,875

9. Per Share Computations

The following table provides a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

Year ended December 31,	**2007**	2006
Numerator for basic and diluted earnings per share - net income	**$137,371,596**	$6,476,155
Denominator for basic earnings per share - weighted average number of shares	**432,704,416**	424,911,600
Denominator for diluted earnings per share:		
- weighted average number of shares	**432,704,416**	424,911,600
- effect of dilutive employee stock options	**3,525,200**	5,723,071
- effect of dilutive share appreciation rights	**771,473**	785,058
- effect of dilutive deferred share units	**160,865**	125,000
Denominator for diluted earnings per share	**437,161,954**	431,544,729
Net income per share - basic	**$0.32**	$0.02
Net income per share - diluted	**$0.31**	$0.02

Excluded from the calculations for the year ended December 31, 2007 are 3,049,800 (2006 - 2,914,800) outstanding stock options with an exercise price range of $5.38 - $6.53 (2006 - $6.42 - $6.53) and 211,717 (2006 - 211,717) outstanding share appreciation rights with an exercise price of $6.42 - $7.42 (2006 - $6.42 - $7.42) and 603,010 (2006 -54,000) DSUs as they are currently anti-dilutive for the periods presented.

10. Credit Facility

The Company has arranged a credit facility of up to $5 million with a Canadian chartered bank. The facility is repayable on demand, bears interest at the bank's prime rate, and is secured by a General Security Agreement.

On November 30, 2007 a letter of credit was posted with ATCO Electric Limited in the amount of $940,000 in respect of the Company's 20% share of the Fort Hills Bitumen Extraction and Processing Facility electrical interconnection.

On December 7, 2007 a letter of credit was posted with Alberta Environment in the amount of $2,848,733 as security in respect of the Company's 20% share of future mine site reclamation for the Fort Hills Project.

11. Commitments

a) Third Party Royalty

The Fort Hills Project as presently configured is subject to a royalty in favour of Petro-Canada respecting the volume of bitumen produced and shipped from oil sands Lease T52 with a minimum annual payment of $200,000 commencing in 2000 and subject to a maximum aggregate royalty of $20 million. The royalty is calculated as 1% to 2% of production and cumulative payments to December 31, 2007 by the partnership as a whole total $1,600,000.

The Fort Hills Project is subject to a royalty payment in favour of Can-Amera Oil Sands, Inc. ("Can-Amera") for bitumen production from Lease T05 of $0.045 per barrel of production. There has been no production to date.

b) Fort Hills Project Development Plan

Retention of the Fort Hills Projects' Leases T05 and T52 is dependent on meeting the terms of the amended Lease Agreements incorporating a Development Plan approved by Alberta Energy on November 1, 2005. This Development Plan requires production at a minimum level of 100,000 barrels per day of crude bitumen for at least 30 consecutive days before June 30, 2011. In addition, the Fort Hills Partnership must meet the following interim development milestones:

(i) submit applications for amending regulatory approvals by March 31, 2007;

(ii) tender and award major engineering contracts by March 31, 2008;

(iii) receive Board of Director approval for the Fort Hills Project and full Fort Hills Project funding authorization by September 30, 2008; and

(iv) tender and award major construction contracts by March 31, 2009.

Certain provisions of the agreement include the following:

i) the Fort Hills Partnership is to actively and aggressively pursue the development milestones and the Fort Hills Project or the Minister of Energy may cancel Lease T05 and Lease T52;

ii) Fort Hills Energy Corporation will not assign, transfer of dispose of any legal interest in or change the operator of Leases T05 or T52 without obtaining the prior written consent of the Minister of Energy;

iii) if a development milestone has not been achieved, a performance deposit of $10 million in respect of the development milestone may be required by the Minister of Energy; and

iv) any performance deposit (other than the production milestone) is refundable if the Fort Hills Partnership achieves the development milestone prior to the production milestone of June 30, 2011. If the Fort Hills Partnership fails to meet the production milestone by June 30, 2011 but meets the milestone by December 31, 2011, then the Minister of Energy shall return one-half of the performance deposit. If the production milestone is not achieved by December 31, 2011, no portion of the performance deposit relating to the production milestone will be returned.

The Fort Hills Partnership is actively pursuing these development milestones.

c) Petro-Canada / Teck Cominco / UTS Energy Corporation Agreements

On March 1, 2005, UTS announced that it had entered into an agreement with Petro-Canada relating to the joint development of the Fort Hills Project. Under the agreement, UTS retained a 40% interest in the Fort Hills Project while Petro-Canada became the operator with a 60% interest. In addition, UTS retained 100% ownership of Lease 14 on the west side of the Athabasca River. The arrangement with Petro-Canada provided for an initial joint $1.0 billion Fort Hills Project funding commitment. Petro-Canada was to earn a 60% interest and operatorship by paying $300 million of UTS' share of the first $1.0 billion of Fort Hills' development costs, at a rate of 75% of UTS' 40% interest share until fully earned into the Fort Hills Project. At the same time as paying the earn-in, Petro-Canada was to also pay its own 60% share of the Fort Hills development costs.

The Fort Hills partnering arrangement was then revised during the third quarter of 2005 with the addition of Teck Cominico Limited ("Teck Cominco") as a 15% working interest partner. The revised Limited Partnership Agreement ("LPA") was executed November 30, 2005, reflecting the revised arrangement with Petro-Canada remaining the operator with a 55% interest, UTS retaining a 30% interest and Teck Cominco subscribing for a 15% interest. The LPA provided for an initial joint $2.5 billion funding commitment for expenditures on the Fort Hills Project incurred from March 1, 2005 onward. Teck Cominco was to earn a 15% interest by paying $850 million of the first $2.5 billion spent, the remaining $1.65 billion to be contributed by Petro-Canada at $1.55 billion and UTS at $100 million. After the first $2.5 billion of spending was to have been reached, further costs and expenses incurred would be funded by the partners on the basis of their ownership interest.

On November 26, 2007, UTS announced the completion of a transaction announced previously on September 19, 2007 whereby its current partners in the Fort Hills Project, Petro-Canada and Teck Cominco, will each earn a further five percent working interest in the Fort Hills Project to bring Petro-Canada's interest to 60% from 55% and Teck Cominco's interest to 20% from 15%, with a resultant decrease in UTS' interest from 30% to 20%. Petro-Canada and Teck Cominco will contribute a combined $750 million on UTS' behalf beyond the original obligation of $2.5 billion noted above. As a result, UTS is effectively funded up to the first $7.5 billion of Fort Hills Project expenditures, with a $250 million further contribution required by UTS over the period during which the first $7.5 billion is spent. After the first $7.5 billion of spending has been reached, further expenditures will be funded by the partners on the basis of their ownership interests.

The funding of Fort Hills Project expenditures by the Company's partners in the Fort Hills Partnership on the Company's behalf results in the Company's property, plant and equipment balances in these financial statements increasing only by the percentage of expenditures actually funded by the Company itself during the earn-in period (ie - until the first $7.5 billion of Fort Hills Project expenditure has occurred). The Company is funding the first $2.5 billion of Fort Hills Project expenditures at 4%, or $100 million and will fund the ensuing $5 billion at 5%, or $250 million, for a total corporate spend of $350 million for the first $7.5 billion of Fort Hills Project expenditure. Thereafter, the Company will fund its 20% interest share of expenditures.

d) Fort Hills Funding

The Company is responsible for its share of the capital and operating costs of the Fort Hills Project. The cost of development of the Fort Hills Project significantly exceeds the Company's financial resources. Prior to commencing operations (if at all), UTS intends to finance such capital requirements from borrowings or from sales of equity securities. If additional financing is unavailable, the Fort Hills Project may be further delayed, development may be indefinitely postponed, or the future value of the Company's investment therein may be impaired.

e) Lease Commitments

The Company has committed to operating lease arrangements, for office space and equipment, in the aggregate amount of $1,316,000 over the next five years. Annual payments are as follows:

2008	$726,000
2009	565,000
2010	25,000
2011-2012	-

12. Contingencies

a) Crown Royalty

The Province of Alberta imposes royalties of varying rates on the production of bitumen from oil sands. In October 2007, the Alberta government proposed a new royalty framework. Under the new regime, the Government of Alberta will increase its royalty share from oil sands development by introducing price-sensitive formulas which will be applied both before and after specified allowed costs have been recovered, including a return on capital based on the Government of Canada's long-term bond rate ("payout"). The base royalty will start at one percent of gross revenue on bitumen produced and will increase for every dollar that the world oil price, as reflected by the West Texas Intermediate ("WTI") crude oil price, is priced above $55 per barrel, to a maximum of nine percent when the WTI crude oil price is $120 per barrel or higher. After payout, the net royalty on oil sands will start at 25 percent of net revenue and will increase for every dollar the WTI crude oil price is above $55 per barrel to a maximum of 40 percent when the WTI crude oil price is $120 per barrel or higher. The Government of Alberta has announced that it intends to review, and if necessary, revise current rules and enforcement procedures with a view to clearly defining what expenditures will qualify as specified allowed costs. These changes will be effective from January 1, 2009. It should be noted that not all details surrounding the mechanisms were released, most specifically the Alberta Government wishes to finalize two other key valuation drivers for the oil sands royalties by January 1, 2009, specifically the bitumen valuation methodology and potential upgrader tax credits. Prior to January 1, 2009, the existing regime has oil sands producers subject to an initial crown royalty of 1% of the gross revenue on the bitumen produced, to be paid until the recovery of 100% of the capital costs associated with the mining and extraction facilities, including a return on capital based on the monthly federal long-term bond rate. Subsequent thereto, the royalty will be the greater of 1% of the gross revenue on the bitumen produced and 25% of net revenue. Net revenue is determined by

deducting from gross revenue the aggregate of all allowable operating costs and capital costs and any loss carry forwards.

b) Licensing Agreement

In 2000, the Fort Hills Project entered into a license and technical support agreement with a third party to obtain ongoing technical support and information on licensed processes for the extraction of bitumen from oil sands through to 2015. To date, $5 million has been paid by the Fort Hills Partnership pursuant to this agreement. Contingent on utilization of the underlying subject technology, an additional $15 million is payable when construction of the Fort Hills Project commences and a further $25 million is payable when the Fort Hills Project attains specified levels of production. At December 31, 2007 there are no amounts due under this agreement.

c) Fort Hills Pipeline Project

The Fort Hills Partnership has entered into a memorandum of agreement with Enbridge Pipelines (Athabasca) Inc. (the "Agreement") to develop and operate diluent and bitumen pipelines ("Pipeline Project") for use in the Fort Hills Project. Under the Agreement, Enbridge Pipelines (Athabasca) ("Enbridge") will construct, own and operate the pipelines to be used in transporting diluent and bitumen for the Fort Hills Project. If the Fort Hills Partnership were to terminate the Pipeline Project before construction completion, the Fort Hills Partnership would be required to compensate Enbridge for capital costs incurred and committed as a the date of Pipeline Project termination. At December 31, 2007, the Pipeline Project is in the construction phase and the capital costs incurred by Enbridge are approximately $4 million and capital costs committed by Enbridge are approximately $6 million.

d) Petro-Canada / Teck Cominco / UTS Energy Corporation Agreements

The terms of the Fort Hills Partnership agreements provide that if the Fort Hills Partnership were to determine that the Fort Hills Project will not proceed, which would be a decision requiring unanimous agreement amongst the Fort Hills Partners, UTS would be entitled to the remaining amount of Petro-Canada's initial earn-in of $0.675 billion and Teck Cominco's initial earn-in of $0.725 billion unless costs have exceeded $7.5 billion.

13. Financial Instruments

The carrying value of the Company's short-term financial instruments including cash and short term deposits, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of their short-term nature. Note 3 sets out assumptions made and methodology followed in assessing a fair value for the impaired asset-backed commercial paper held by the Company, which is now being represented as a long term investment.

The non-current non-interest bearing loan payable was discounted using a credit adjusted risk free interest rate of 6% and assuming payment in full on September 30, 2007. In 2007, amortization of this discount resulted in $7,396,134 (2006 - $900,629) of interest expense, which has been capitalized to property, plant and equipment.

The non-interest bearing sale proceeds receivable have been discounted using a credit adjusted risk free interest rate of 4.5% and assuming payment in two instalments of $40 million each on June 28, 2008 and 2009. In 2007, amortization of this discount resulted in $1,734,928 (2006 - $Nil) of interest income.

14. Recent Accounting Pronouncements

Effective January 1, 2008, the Company will be required to adopt CICA Handbook accounting standards section 3862 Financial Instruments-Disclosures, section 3863 Financial Instruments-Presentation, section 1535 Capital Disclosures, section 1400 General Standards of Financial Statement Presentation and section 3031 Inventories, which deal with the Company's financial instruments, inventory costing as well as its capital management. UTS is currently assessing the impact of these new standards, which will be incorporated in its financial reporting for the first quarter of 2008.

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. The full change-over is currently expected to occur for fiscal years beginning on or after January 1, 2011. The Company is commencing assessment of the impact of IFRS on the entity and its financial reporting.

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